



Second Session — Thirty-Second Legislature
of the
Legislative Assembly of Manitoba

STANDING COMMITTEE

on

ECONOMIC DEVELOPMENT

31-32 Elizabeth II

Chairman
Mr. G. Lecuyer
Constituency of Radisson



MG-8048

VOL. XXXI No. 1 - 10:00 a.m., TUESDAY, 19 APRIL, 1983.

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Second Legislature

Members, Constituencies and Political Affiliation

Name	Constituency	Party
ADAM, Hon. A.R. (Pete)	Ste. Rose	NDP
ANSTETT, Andy	Springfield	NDP
ASHTON, Steve	Thompson	NDP
BANMAN, Robert (Bob)	La Verendrye	PC
BLAKE, David R. (Dave)	Minnedosa	PC
BROWN, Arnold	Rhineland	PC
BUCKLASCHUK, John M.	Gimli	NDP
CARROLL, Q.C., Henry N.	Brandon West	IND
CORRIN, Brian	Ellice	NDP
COWAN, Hon. Jay	Churchill	NDP
DESJARDINS, Hon. Laurent	St. Boniface	NDP
DODICK, Doreen	Riel	NDP
DOERN, Russell	Elmwood	NDP
DOLIN, Mary Beth	Kildonan	NDP
DOWNEY, James E.	Arthur	PC
DRIEDGER, Albert	Emerson	PC
ENNS, Harry	Lakeside	PC
EVANS, Hon. Leonard S.	Brandon East	NDP
EYLER, Phil	River East	NDP
FILMON, Gary	Tuxedo	PC
FOX, Peter	Concordia	NDP
GOURLAY, D.M. (Doug)	Swan River	PC
GRAHAM, Harry	Virden	PC
HAMMOND, Gerrie	Kirkfield Park	PC
HARAPIAK, Harry M.	The Pas	NDP
HARPER, Elijah	Rupertsland	NDP
HEMPHILL, Hon. Maureen	Logan	NDP
HYDE, Lloyd	Portage la Prairie	PC
JOHNSTON, J. Frank	Sturgeon Creek	PC
KOSTYRA, Hon. Eugene	Seven Oaks	NDP
KOVNATS, Abe	Niakwa	PC
LECUYER, Gérard	Radisson	NDP
LYON, Q.C., Hon. Sterling	Charleswood	PC
MACKLING, Q.C., Hon. Al	St. James	NDP
MALINOWSKI, Donald M.	St. Johns	NDP
MANNES, Clayton	Morris	PC
McKENZIE, J. Wally	Roblin-Russell	PC
MERCIER, Q.C., G.W.J. (Gerry)	St. Norbert	PC
NORDMAN, Rurik (Ric)	Assiniboia	PC
OLESON, Charlotte	Gladstone	PC
ORCHARD, Donald	Pembina	PC
PAWLEY, Q.C., Hon. Howard R.	Selkirk	NDP
PARASIUK, Hon. Wilson	Transcona	NDP
PENNER, Q.C., Hon. Roland	Fort Rouge	NDP
PHILLIPS, Myrna A.	Wolseley	NDP
PLOHMAN, John	Dauphin	NDP
RANSOM, A. Brian	Turtle Mountain	PC
SANTOS, Conrad	Burrows	NDP
SCHROEDER, Hon. Vic	Rossmere	NDP
SCOTT, Don	Inkster	NDP
SHERMAN, L.R. (Bud)	Fort Garry	PC
SMITH, Hon. Muriel	Osborne	NDP
STEEN, Warren	River Heights	PC
STORIE, Jerry T.	Flin Flon	NDP
URUSKI, Hon. Bill	Interlake	NDP
USKIW, Hon. Samuel	Lac du Bonnet	NDP
WALDING, Hon. D. James	St. Vital	NDP

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Tuesday, 19 April, 1983

TIME — 10:00 a.m.

LOCATION — Winnipeg

CHAIRMAN — Mr. G. Lecuyer (Radisson)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Mr. Cowan, Hon. Ms. Dolin, Hon. Mr. Parasiuk and Hon. Mrs. Smith

Messrs. Ashton, Brown, Filmon, Johnston, Lecuyer, McKenzie and Scott

APPEARING: Mr. Murray Harvey, Chairman of the Board

Mr. Paul Demare, Director of Finance

Mr. W. Jonas, General Manager of the Woodlands Lumber Divisions

Mr. Dave Bown, General Manager of the Pulp and Paper Divisions

MATTERS UNDER DISCUSSION:

Annual Report of Manitoba Forestry Resources Ltd.

* * * *

CLERK OF THE COMMITTEES, Ms. DePape: Committee, come to order.

I have the resignation here of the Honourable Ms. Dolin as chairperson for the committee, which means we have to elect a new chairman. Are there any nominations?

HON. W. PARASIUK: I nominate Mr. Lecuyer.

CLERK OF THE COMMITTEES: Any further nominations? Seeing none, Mr. Lecuyer would you please take the Chair?

MR. CHAIRMAN, G. Lecuyer: The first item of business is the Annual Report from Manitoba Forestry Resources Ltd.

Mr. Minister, I believe you want to say a few words.

HON. W. PARASIUK: Yes. We have tentatively scheduled two companies for review. We may not be able to get through both of them.

The first in order would be Manfor because the people have come in from The Pas, so I would suggest we proceed with them and see how far we get with them. If we finish them, then I would suggest we move on to MMR who are on standby and available to appear before the committee today. So I would like to call on Mr. Murray Harvey, the Chairperson of Manfor, to

present the report. You might want to introduce the people you brought with you, Mr. Harvey.

MR. M. HARVEY: Thank you, Mr. Parasiuk. Mr. Chairman, I have with me today Mr. Demare on my left, who is the Director of Finance and over at the table on the left Mr. Bown, who is the General Manager of the Pulp & Paper Division, and Mr. Bill Jonas who is the General Manager of the Woodlands Lumber Division at The Pas.

I think it's traditional to commence with the review of the narrative section of the report which I would like to do at this time.

Market conditions during the year under review worsened considerably over the previous year. The adverse effect of a sluggish worldwide economy in our pulp and paper operations was further compounded by devaluation in the currency of our main competitor in the offshore market.

In the lumber market demand continued to be soft and prices fell for the third consecutive year from their high point in 1979. This is due almost entirely to housing starts in the U.S. continuing at less than one-half their traditional levels. For both pulp and paper and lumber operations the net effect is underutilization of productive capacity and resources, leading to suboptimal operating efficiency and consequently unprofitable operations.

In the Lumber Market, lumber prices were held down by low demand and high availability. In only one month was the selling price of lumber higher in the year under review than it was in the preceding year. For the remaining 11 months selling prices were substantially lower, with the result that in the fiscal year ended September 30, 1982 the average net selling price of lumber was 12 percent lower than it was in the previous year. As mentioned earlier, this is the third consecutive year that the selling price of lumber has dropped. The average selling price in fiscal 1982 was 29 percent lower than the average price in 1979.

This low demand over-supplied market situation experienced during the year under review dictated a cutback in lumber production. Initially, the company attempted to match production to demand by taking a four week shut-down during February followed by two months of production at 80 percent of capacity. During this two-month period the company ended into a work-sharing agreement arranged with the two levels of government to minimize the effect of lost wages on its employees. At the end of the two-month period the market had not improved sufficiently to justify even 80 percent capacity production and the company cut production to one shift per day. It did so reluctantly, since this necessitated that 88 employees be laid off indefinitely. Production for the reporting year wound up being 32 percent lower than it was in the preceding year.

In the pulp and paper market, although demand for pulp and paper was soft throughout the reporting year the selling price was reasonably firm until the year's

mid-point. At that point the average selling price was 9 percent above the preceding year's level because of soft demand sales volume was 20 percent below the preceding year's volume. For the balance of fiscal 1982 the average selling price for pulp and paper was lower than it was in the preceding year, so that by year end the 1982 price was only 2 percent higher than the average 1981 selling price for pulp and paper. Sales volume for the reporting year was 21 percent below the volume sold in the preceding year.

Pulp and paper operations, until the mid-point of fiscal 1982, pulp and paper production continued at capacity levels. However, because production volume was exceeding sales volume, the normal five-day maintenance shutdown in May was extended to 22 days. The usual practice of minimizing maintenance downtime by supplementing company personnel with contract personnel to perform maintenance work was not followed, in order to keep employee layoffs to a minimum.

A further suspension of production took place in August for a period of 22 days. For the reporting year, production was 16 percent lower than the preceding year when the mill produced to capacity.

The overall effect of this situation on company earnings: The conditions referred to in the preceding paragraph translated directly into our Profit and Loss Statement for the year under review.

The figures for the year ending September 30, 1982 were: Sales, \$62,713,000 as opposed to 1981 sales figures of \$78,556,000.00. Operating Loss before interest depreciation in minor items was, in 1982, \$3,000,909 as against an operating profit in 1981 of \$7,242,000.00. Loss for the year, after interest and depreciation, was in 1982, \$13,818,000 as opposed to a loss in 1981 of \$1,605,000.00.

The situation currently: Lumber market conditions improved with selling prices during the current year at a level of 24 percent higher than the same period last year. This is still below the costs of production; however production is being maintained at 60 percent of normal. The outlook for the balance of the year is for continued improvement if interest rates continue to moderate, thereby generating a continued increase in the number of housing starts in the U.S. and Canada.

Pulp and paper demand for the year to date has continued at approximately 80 percent of capacity. This is translated into a decrease in selling price of 10.2 percent for paper and 29.4 percent for pulp. In addition, production was curtailed with 27 days of downtime being taken.

Current market projections for the balance of the year are that demand will improve sufficiently to reduce the necessity for downtime but not sufficient to see any material improvement in selling price.

For the year to date, that's for the period ending February 12th, 1983, we have a cash loss before depreciation and interest of \$3,687,000 as opposed to a profit at that time, in 1982, of \$2,804,000.00. After depreciation and interest, our loss in 1983 is \$7,781,000 - that's the loss to date. And the comparable loss for the preceding year was \$746,000.00.

Current projections for the year are for an operating loss of \$10 million as opposed to \$3.9 million in 1982; after depreciation and interest the projected loss for 1983 of \$20 million, as opposed to \$13,818,000 in 1982.

In order to maintain our position in the marketplace and improve our commercial liability, we need to update our physical facilities to take advantage of the latest technological advances in production equipment. This is particularly true in the case of the sawmill where production equipment is physically worn out. To this end, we are currently engaged in technological and other organization studies in order to develop a long-term strategy which will provide stable employment for our work force and a reasonable rate of return for our shareholders.

MR. CHAIRMAN: Thank you, Mr. Harvey. Are there any questions?

The Member for Turtle Mountain.

MR. B. RANSOM: Can Mr. Harvey give us any update as to what's happened in the last two months. I believe he said that this reference to the current year was dated approximately mid-February. Another two months have passed since then.

MR. M. HARVEY: Yes, Mr. Chairman. The market in lumber is still improving, but not at the rate that we had expected. It's still a rising market, but slower than anticipated.

The pulp and paper market appears to be firming but not increasing. I understand from my managers that is the normal state of affairs when a market starts to improve, that there is a period where the market will firm up. I would ask maybe Mr. Demare if he could give us the updating with respect to financial, the other part of Mr. Ransom's question.

MR. CHAIRMAN: Mr. Demare.

MR. P. DEMARE: The current figures up to March 12, 1983: the cash profit and loss before interest and depreciation - current year, 3,564,000 loss, as compared to last year, a profit of 3,182,000; after interest and depreciation, the current year's loss \$8,497,000, as compared to last year, \$1,109,000 loss.

MR. CHAIRMAN: The Member for Turtle Mountain.

MR. B. RANSOM: And the projections for the year?

MR. P. DEMARE: The projection for the year is holding at a \$20 million loss after interest and depreciation, with a cash loss of \$10 million.

MR. B. RANSOM: I believe that Mr. Harvey had said that the markets haven't strengthened to the extent that they had been expected to strengthen. That has not had an effect on your year's projection?

MR. P. DEMARE: We had been conservative in the strengthening of the markets anyway, Mr. Ransom. We actually had projected earlier, at the beginning of the year, an even greater loss. We revised that at the time we prepared this report, so I think that we can stand with those figures at the moment unless there is a significant worsening in the market.

MR. B. RANSOM: I'd like to ask Mr. Harvey then, how long can this go on, in his view, that we now have this

estimated loss of \$20 million for the coming year? What has to be done?

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: Well, essentially what has to be done are some major steps in renovating the mill to bring the technological capacity up to the state of the art, if you will. We need to do some work in the sawmill that will bring that part of the operation into at least a zero position with respect to profitability, preferably a small profit, but if we could bring it into zero that would be extremely helpful. I believe that we are in a rising market now, but we have lost some ground in terms of being competitive. We need to make some moves in the pulp mill that will ensure that we can compete in the existing product line and develop at the same time some definite plans to change with the markets as we can see it changing in the long term.

If we do not do any of these things, your position would improve with the market for a short period of time, but in my view it would never come back to where it was originally because we've lost some ground, particularly in the kraft bag product where our edge was a high-strength paper.

MR. CHAIRMAN: The Member for Turtle Mountain.

MR. B. RANSOM: Is that what Mr. Harvey is referring to when he says we've lost ground competitively?

MR. M. HARVEY: When we've lost ground competitively in three ways - you may be aware that the company at one time enjoyed some tariff protection in the paper market. That has been changed because of the change in the general agreement on tariffs and trade. We will lose that edge over time and I think it extinguishes somewhere in 1986 or in that period. That's the first reality.

The second reality is that there is now another strong competitor in the high strength kraft paper business that we enjoyed an edge in that area; uses I understand basically the same process as we do, but has more sophisticated equipment and can therefore produce a better product. We have lost ground there. Of course, if you are not up on the state of the art with respect to technology, then your costs make you non-competitive as well.

MR. CHAIRMAN: The Member for Turtle Mountain.

MR. B. RANSOM: Sorry, I caught two areas there. I thought Mr. Harvey said there were three areas.

MR. M. HARVEY: Yes, the last one was costs. If your technology runs behind your costs will become . . .

MR. B. RANSOM: Last year, Mr. Hallgrimson had indicated that they hoped to do some updating on the sawmill lines. That apparently was not carried out this year. What happened in that respect?

MR. M. HARVEY: Yes, Mr. Chairman, the study has been completed, presented to the Board. The Board has made a recommendation to the Minister to go ahead with the updating of the sawmill.

MR. CHAIRMAN: The Member for Morris.

MR. C. MANNESS: Thank you, Mr. Chairman. Mr. Harvey — (Interjection) —

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: Yes, if I could just clarify that one point in relation to Mr. Ransom's question. We've received that recommendation. The joint federal-provincial study on the pulp and paper plant is being concluded and we're awaiting a bit of federal work on that. Then it would be our intention to proceed to get funding from the Federal Government on both pulp, paper and sawmill aspects. There have been federal inputs into eastern plants. We had received early commitments from the Federal Government with respect to the complex at The Pas. We are pursuing this joint federal-provincial study with the intention of, in a sense, dotting all the i's and crossing all the t's and ensuring the maximum federal input possible. We would be presenting the submission for cost sharing on both the sawmill and pulp and paper complex toward some time in the summer, early fall. That would be the intended time table we have in mind.

MR. CHAIRMAN: The Member for Morris.

MR. C. MANNESS: Thank you, Mr. Chairman. I'd like to ask a couple of questions in the lumber area. The conditions that are improving in that area, are they specifically because of housing starts or is there any indication that there's an increase also in commercial building, or indeed, business activity at all?

MR. M. HARVEY: I believe the primary reason for improvement is from housing starts, the fact that there's an increase in housing starts in the States where a good deal of our product goes, and the fact that most of those starts are single-family dwellings where lumber is a major part of the construction. If they were larger commercial ventures, then it wouldn't mean very much to the lumber industry.

MR. C. MANNESS: Mr. Harvey, when you say a large percentage of your product, within what range of your product would be exported to the States?

MR. M. HARVEY: Yes, approximately between 60 percent and 70 percent of the product goes to the States.

MR. C. MANNESS: Mr. Harvey, when would your company receive a signal as to whether the economic recovery is taking place in Canada as far as the continuation of the flurry of housing starts we seem to have had over the last three months, whether that was going to continue or not, given that possibly the federal assistance is going to be dropped in the building of new homes? Do you receive any advance warning of that or, indeed, is it strictly the orders that come to you for your product?

MR. M. HARVEY: I would like Mr. Jonas to answer that question if he would come forward. I would preface

his answer by saying that because a great deal of our product goes to the States we would expect housing starts there to have an impact on our sales first. The percentage of our product sold in the prairies is very minor and we probably wouldn't be as aware of the flurry in Canada from a sales point of view as soon as anyone else.

Mr. Jonas do you have anything to add to that?

MR. CHAIRMAN: Mr. Jonas.

MR. W. JONAS: Our order situation and our knowledge of what's going on in the lumber market comes from discussions with buyers throughout Canada and the United States on just about a daily basis and this consolidates into orders as it's only on that time with an order and a price on a particular day that we really know for sure what's happening as far as the gains or losses in the lumber market. It's a very competitive day-to-day supply and demand situation.

MR. C. MANNES: I'd like to ask the gentlemen what a 2 percent strengthening in the Canadian currency against American dollars would do as far as our competitiveness in the United States?

MR. W. JONAS: It would end up overall averaging about 65 percent right at the minute of U.S. sales so 2 percent would end up about 1.4 percent, in effect, over a decrease in our situation overall, about \$5 a thousand.

MR. C. MANNES: I'm just trying to determine whether, indeed, a major change in exchange rates, what type of an impact would it have on our competitiveness? I don't have to know to the dollar but in a general sense, would it cause some great concerns and problems for Manfor?

MR. W. JONAS: If the value of the Canadian dollar with regard to the U.S. dollar, if it goes up it's detrimental to our profit and loss situation, if it goes down it's advantageous.

MR. C. MANNES: Yes, I understand that. I'm just more curious as to what it does to your share? How does it impact into a share of the U.S. market? Like you say you'd lose money but would you also reduce your share into that market or do you just price accordingly?

MR. W. JONAS: I don't believe so, I believe the share would stay approximately the same. For the last 10 years we've been in more or less the same percentage share between the U.S. and Canadian markets as the price of lumber went up and down and as the economy went up and down.

MR. CHAIRMAN: The Member for Turtle Mountain.

MR. B. RANSOM: Mr. Chairman, on Page 5 of the report it says in the last line that it would develop in a long-term strategy which provided stable employment for our work force and a reasonable rate of return for our shareholders - shareholders, of course, being the taxpayers in this case. What do you consider to be a

reasonable rate of return then, Mr. Harvey, when you use it in this context?

MR. M. HARVEY: I think that - and I don't want you to take this as a dodge - I think that the reasonable rate of return is a decision that a shareholder has to consider. For example, if it was a completely commercial enterprise then the rate of return would probably be gauged by what that shareholder could do with his money elsewhere as opposed to keeping it in Manfor.

With a Crown corporation, even though it is a commercial enterprise, it may well be that the origin of the company and the continuing expectation of the shareholder is such that he might decide that he wants a portion of a return on the investment in the monetary terms and some other considerations as well, such as employment generation, use of the resource, those kinds of things.

In using the sentence here, I would use that sentence in the general way it's used at a reasonable rate of return that would keep the investor interested in the enterprise for whatever his reasons might be.

MR. B. RANSOM: Mr. Chairman, Mr. Harvey has made the statement that they are currently engaged in technological and other organizations in order to develop this strategy which will give a reasonable return which he says is largely determined by the shareholder. Has the chairman, then, received direction from the shareholder as to what they would consider to be a reasonable return?

MR. M. HARVEY: Yes, although you can't quantify that my direction would seem to indicate the expectation is in the long term a commercial viability making effective use of the resource and also paying attention to the effect of the enterprise on the communities and area in which it exists; which, I suppose, in terms of a strategy you would need to be about those things that will promote a commercial viability over the long term and yet not be disconcerted with such matters as good corporate citizenship and maybe for a specific example, good resource management.

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: Yes, I just wanted to say that one of the tasks of the studies is to point out the alternative options that are available, the alternative levels of risk and the possible pay back periods for various types of investment. Obviously that didn't seem to have taken place when the facility was set up in the first instance. There have been some minor investments made to that facility since it began over a period of years.

I'm not sure whether that type of analysis was done whenever those investments were made. We are at a stage right now where we're being, in a sense, forced to consider investments because of the fact that the tariff protection will disappear by 1987 and that means when we consider these alternative investments it's important to consider the alternative paybacks and potential rates of return, while at the same time taking into account the role that the higher complex plays in Northwest Manitoba. That's why it's difficult to put this down as a number per se, but rather as a range of

concerns that must be looked at with some hard numbers necessary with respect to payback possibilities.

MR. CHAIRMAN: The Member for Turtle Mountain.

MR. B. RANSOM: I realize it's difficult to put down, Mr. Chairman, but when a statement is made by the chairman of the board indicating that they have an objective that they're working towards, then I simply want to get a better understanding of what the chairman means by that because we all know that this company is in trouble financially.

So the chairman has given me three goals, commercial viability, proper use of the resource and due regard for the community. Now I suppose you can't necessarily maximize all three of those at the same time. Is the first objective the chairman is aiming at then in working out the strategy, is the first objective to provide employment, or is it to provide a commercially viable operation which I take it is simply a euphemism for profit, or is it to properly manage the resource? Does the chairman have an ordering of those priorities?

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: Yes, Mr. Chairman. The order of priority would be in my mind - although I don't agree that you can separate them totally - in my mind your first priority is to strengthen the company in a financial way because that's its gravest problem at the moment. So we have to try and do those things that work on the financial position of the company and getting it some strength there in order to do any of the other things as well.

The reason I say you can't separate them totally is because if you use a completely economic efficiency model, then you may be doing something that would prevent you from doing the other things in the longer term. For example, if one of the objectives was an employment objective, then you couldn't do something in the short term that may do away with a significant number of jobs in that you couldn't get it back; a close down of a particular division just to improve the short-term viability if your responsibility included maintaining a certain level of employment. But certainly the first priority would be financial.

MR. CHAIRMAN: The Member for Turtle Mountain.

MR. B. RANSOM: I would like to pursue a bit the company's or the government's plans then for the upgrading of the complex. Last year there had been some indication that the sawmill or saw lines were going to be updated during the year that we were in. That was not done, evidently because it's been looked at as part of an overall study. Now the indication is in the report, that the production equipment in the sawmill is physically worn out, so I assume there is some urgency there to proceed with that part.

In the overall study then, the federal-provincial study that's being done, does the Minister see coming out of that a redevelopment package that might be undertaken in what one would have to term the short

term, given that this equipment is physically worn out, or does he see part of it going ahead, the sawmill on its own? If there isn't joint venturing cost-sharing with the Federal Government, is the province going to proceed with that portion on its own? Does the Minister have any indication at this point how much investment is going to be required in the overall complex, to have a chance of making it viable?

Is REPAP still involved or where had been negotiations going on for some period of time with that company? I believe they were most advanced with REPAP although there were discussions with other companies as well. Where does that whole issue stand? Because it appears that we're very rapidly getting into what could only be termed a critical situation in terms of this complex.

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: Mr. Chairman, there were investments that should have been made before 1981, before we assumed responsibility. Those investments were proposed by the management of the company and by the board of the company to the government of the day. The government of the day chose not to make those investments because they were looking at other alternatives and none of those alternatives materialized, in the final analysis.

There had been discussions with a particular company. I think some of the other discussions hadn't proceeded that far. These discussions had reached some stumbling blocks, although there had been some work done. The stumbling blocks seemed to be the extent to which there was a possibility of federal funding. The whole proposal was contingent on federal funding, which hadn't been forthcoming and didn't appear to be forthcoming with respect to the particular possibilities that were being discussed by the previous administration and REPAP. That was one of the reasons why we raised with the Federal Government the possibility of taking another look in considering a set of options rather than just considering an option in relation to REPAP per se.

We informed REPAP that this would be done, that our intention would be to try and ensure that we get the fullest federal participation possible. We had received some favourable indications from three Ministers, De Bane, Herb Gray and the last one being Johnson. The studies had been proceeding because we do realize that the future investment in that facility, in part, is dependent on federal participation and that was realized by the previous administration as well.

We're hoping to move the process along as expeditiously as possible. That's why the Department of Crown Investments did hire Allan Bourjois to act as the co-ordinator of the study from the provincial perspective, to ensure that we do process it as quickly as possible, at the same extent that we do ensure the greatest possibility of federal cost-sharing. Monies have been invested in eastern facilities and we believe that we have just as fair a share to that type of investment as does eastern Canadian facilities.

We hope that we can come to some conclusions by summertime or possibly early fall - one often can't predict going through the federal system as easily as one can predict going through a provincial system -

but it would be our intention to pursue the development of that as a complex, which is why we had been talking about the sawmill and the pulp and paper complex facility because they both are integrated.

I wouldn't like to talk about fall-back positions because frankly I think it's imperative that we press the situation with the Federal Government to ensure that we do get a consideration of it as an integrated complex. We obviously would have to cross bridges in the future if we didn't find we were successful with that approach.

We certainly have tried to keep REPAP and other interested parties informed as to what we're doing and what the time frame might be so that they could get involved when we got some idea of whether in fact there would be federal cost-sharing or not, because anyone who's come forward thinking about any type of possible investment in that facility has always predicated this on federal cost-sharing.

We certainly hope that we will be successful. The indications to date from the Federal Government have been positive. It's a matter of bringing this to a head over the course of the summer or early fall and ensuring that we do establish a long-term development plan, one that may be phased over a period of time because one of the big decisions facing that complex is whether in fact it should get into bleach kraft pulp. But to get into bleach kraft pulp, given the order of magnitude of the expenditures involved which are literally in the hundreds of millions of dollar, has to be done very prudently with the correct assessment of the market and it may be premature for a major investment of that type. Timing will be very important and this is something that may have to, in fact, be looked at, kept as a contingency possibility for a period when there is a much stronger strengthening of the world and North American economies and a demonstrated strengthening over a period of time, otherwise one would be making a very large gamble to speculate that things would be improved tremendously over a five to eight year period.

So there are these options that are being considered; options that range from about a \$10 million improvement of the sawmill facility; options that range from investments in the \$20 million range for improvements in the pulp and paper complex; options that would start taking us into the bleach kraft field with a bleacher; and then options that start looking at expansion of the facility to better get economies of scale from a bleach kraft facility. Those types of expenditures though, the latter types when one starts expending to better economies of scale, take one into the plus \$250 million range which at this particular stage, the government would not want to proceed with imprudently; would like to consider joint ventures, long-term contracts, everything to minimize the risk of that type of an investment.

It would be one, without foreclosing any options, that the government really isn't anxious to get into at this particular stage, but would rather let that develop over a period of time as I said, as the world economies strengthens and as the North American economy strengthens demonstrably over a period of time. It is certain though that there will have to be some investments undertaken over the course of the next year.

MR. B. RANSOM: Are there any discussions ongoing with companies then that could be classed as

negotiations in terms of future developments of the complex?

HON. W. PARASIUK: At this particular stage, no. There have been discussions with companies as to what the options might be. There have been discussions with companies as to what our wood supply is and what the quality of our wood fibre is like. We have had discussions with people in that respect, so that they might get a better feel for the Manfor complex in Manitoba.

All companies in the pulp and paper industry have faced some very very difficult times, however. At this particular stage, most of them have been fighting for survival individually. They have been somewhat reluctant to get into specific discussions pertaining to joint ventures when they themselves are running losses of \$30, \$40, \$50 million a year and are desperately trying to rationalize that which they are operating right now.

If we do get an upturn in the market; if we do have the Federal Government responding positively with respect to inputs into that facility, I think our ability to speak more definitively with private companies would increase because we have looked at the possibility of joint ventures or long-term contracts, so that at least a good portion of what we produce would be guaranteed through longer term contracts and that entails specific discussions and negotiations.

MR. B. RANSOM: A \$10 million possible improvement to the saw lines, I assume, is the commitment which the now Premier made during the election, that it wasn't necessary to make the huge investments of the hundreds of millions that have been talked about, but that the \$10 million investment would be adequate to assure, I believe the figure was over 100 jobs. Is that the area to which that commitment referred?

The Chairman says, I believe, they may only be aiming at trying to get the saw lines to break even. I believe that was a correct interpretation of what he said that that's perhaps all they can hope for there. Now, given that this relatively small investment might be made there and bring the saw lines up to at least where they would break even, if there is not a substantial investment - and the Minister used the figure of \$250 million plus from my recollection of it - would be very surprised if the investment of \$250 million would make the technological changes and expansions that might be required. But if that sort of investment is not made, then what is the future of the complex - the pulp and paper aspect of it specifically - over say the next five years?

MR. M. HARVEY: Our best judgment at the moment is that there is some short term, maybe long-term future in the unbleached kraft business, provided you bring your quality up to the major competitor they talked about earlier. So you could have some short-term assurances in the unbleached market. We don't know for certain whether that could continue into the long term. The indications seem to be not, that at some point in the future you might have to go into bleached anyway, but it's not certain by any means.

If you stayed in unbleached, of course the investment is still large, but much smaller than \$250 million and

t's possible that you might be able to stay there. The indications are that it is not by any means certain, so that means I guess that sometime over the long term, from what we can see from here, there would have to be a bleached operation considered, but in the short term, kraft could be considered as a viable option.

HON. W. PARASIUK: By the short term from what I've seen, the people have been talking in the five to ten year range. Beyond that, 10, 15, 20 years, one is talking about bleached kraft pulp. The people that have been talked to - and these are a lot of companies and a lot of the people involved in the sale of pulp and paper - indicate that northern softwood fibres are very valuable, highly sought after. There are some changes taking place in the technology regarding pulp and paper, but they believe that over the long run, we have a very valuable softwood fibre there.

MR. B. RANSOM: I'd just like to try and get some summarization and Mr. Harvey's view on this, over the five-year term. Would he see the complex meeting his three objectives of commercial viability, proper use of the resource and due regard for the community if there is no more investment than that required to update the saw lines; or put it another way, if he doesn't see that happening, what does he see as the minimum investment required to meet his three objectives over the next five years?

MR. M. HARVEY: I would think that given the market intelligence that we have and the state of our present technology as a minimum, we would have to correct the deficiencies in the sawmill and at least bring our unbleached product into line with our major competitor, so that would be a very minimum. We'd have to take at least that step in the pulp mill as well.

MR. B. RANSOM: What might that cost?

MR. M. HARVEY: Well, I think the figure in the sawmill is around \$9 million. The existing operation upgrade would be about \$31 million so you're looking at about \$40 million.

MR. CHAIRMAN: The Member for Rhineland.

MR. A. BROWN: Mr. Chairman, the Minister made reference before to a tariff protection and that this tariff protection would end, I believe he said, by 1987. Could the Minister elaborate a little on what kind of tariff protection we have at the present time?

HON. W. PARASIUK: I believe it was 15 percent going down. I'd like to ask either Mr. Harvey or Mr. Demare to give us a specific explanation of where the tariff was and where we are right now as it decreases proportionately over a period of time.

MR. M. HARVEY: I think Mr. Demare could possibly answer the specific numbers. My understanding was that under the old GATT agreement we had a protection on paper of 15 percent which has now been changed to disappear in incremental units between now and 1987. Mr. Demare, do you have those incremental units?

MR. P. DEMARE: It's a little over 9 percent right now.

MR. M. HARVEY: 9 percent at the moment.

MR. A. BROWN: This whole area of tariffs is of great concern to the entire lumber industry certainly at the present time. I'm sure that you are aware of all the lobbying that's going on in the United States at the present time by the lumber industry over there, to greatly increase the duty or the cost of Canadians doing business in the United States. They are talking as high as 35 percent and up. If this, of course, should occur, that would kill the lumber industry in Canada as such because there would be virtually no lumber moving across the line.

Has the Minister any indication at all as to how these lobbying groups are proceeding in the United States? I believe that by about the end of May we are supposed to be receiving some kind of word as to what is going to happen. Has the Minister received any word on this?

HON. W. PARASIUK: Yes, the first indication was that there would be no quotas imposed. That was appealed. There was one appeal process that has already been dealt with and declined so to date it would appear that we wouldn't have a quota.

What is being conducted is a look at every facility and we provided information to the Canadian and American Governments and bodies in this respect. That review should be completed by May 23rd. The word I have is that it should be completed by May 23rd. If things continue as they are right now, it would appear that we wouldn't have a quota or the type of quota that people were talking about because frankly if they brought in a quota of that nature the entire lumber industry in Canada would go through a catastrophic change. We recognize that the impact on us would be very severe as well so we're keeping our fingers crossed. We've, in fact, provided the necessary information and it would appear that there wouldn't be quotas but one can never tell until we get that final decision coming through on May 23rd.

I might just add one particular thing, in a sense it is ironic that there could be a quota or a type of duty imposed in the United States that could hurt us very much with respect to the lumber industry when, in fact, I believe it was a mistake on the part of our negotiators with respect to the GADD agreement whereby they, I didn't think, paid sufficient attention to the Manitoba situation, when they allowed the tariff to be decreased so that we wouldn't have any tariff protection by 1987 with respect to the kraft paper that we produce and sell in Canada.

MR. A. BROWN: Has the Minister discussed this with the Federal Minister in charge and has he voiced our concern regarding this issue?

HON. W. PARASIUK: Yes, we've had officials from the Department of Natural Resources, who are responsible for the forestry resource in Manitoba, representing us on the federal-provincial committees that have provided this information. We've had representatives from the company as well involved at the committee level. I've been in contact with the various Ministers involved in

this. A leading role was being undertaken by the Minister of Forestry in British Columbia. I have, in fact, kept in a fairly constant communication with him and we've expressed our position at the federal level as well. We believe that this has been one area where provinces have worked well together, and where the Federal Government has worked well with the Provincial Government, and where I think there has been a reasonable approach taken by people in both countries with respect to this issue. At this particular stage that doesn't mean that the lobbying in the United States isn't having a bit of an impact but I think that might be mitigated somewhat as people see housing starts slowly start to increase in the United States.

MR. A. BROWN: We have heard reports that there was a very high inventory on hand from time-to-time. I wonder if Mr. Harvey could tell us how much inventory we have on hand at the present time, both in lumber and in pulp?

MR. M. HARVEY: Yes, Mr. Chairman, at the present time there is approximately 2 million board feet of lumber on hand. That compares to 4.5 million units as of last September. The pulp on hand is 5,569 tons; paper on hand is 9,168 tons, so there is about the same amount of pulp on hand as we had in September. A little bit more paper, and that was the lumber inventory as of March 12 but we're almost out of lumber at the moment. Since that time we're just about out.

MR. A. BROWN: So if you're almost out of lumber then we would expect that you would be speeding up your operation at the Manitoba Forestry Resources Complex?

MR. M. HARVEY: If that were a profitable thing to do, the answer would be yes.

MR. A. BROWN: I notice that you have working capital of \$20 million. Do you ever go over that \$20 million?

MR. M. HARVEY: I would ask Mr. Demare to respond to that.

MR. P. DEMARE: The answer to your question is, yes. At times we do go over \$20 million in working capital depending upon the time of the year and the build-up of inventory. Also that is pretty well a normal level.

MR. A. BROWN: So that \$20 million then really is not a limit. You can go over the limit of working capital. Who authorizes your going over that particular limit?

MR. P. DEMARE: There is no authorization required. The working capital is simply the difference between your Current Assets and your Current liabilities and at any given time you could have a higher Accounts Receivable, or a higher level of inventories for a period of time because of the time of the year, or because of slow payment by some customers and that would then come down again. It's not an amount which is set by anyone.

MR. A. BROWN: Is this then not a bit of a problem? Every other industry that I know of, any private business

that I know of, there's always a limit to the working capital and special requisition has to be made in order to increase the working capital. If you have an unlimited amount of working capital, it seems to me that you'll be paying a lot of interest and it seems to me that this is not the way to run any business.

I wonder if the Minister could explain why there is no limit on working capital and why, after the working capital, which is allowed, has been exhausted, why doesn't the government at that particular time, take a review of the whole situation before they authorize more working capital?

HON. W. PARASIUK: Mr. Chairman, in fact that's one of the reasons why I wanted to establish a Department of Crown Investments. They could provide this type of liaison to Crown corporations to ensure that we deal with matters like this. We certainly are developing a close working relationship with the Crown corporations; they are submitting Quarterly Reports now and in many instances they weren't before. We hope to provide that liaison with the Department of Finance as well, which undertakes the financing for the Crown corporations, so, Mr. Chairman, these are things that we are looking at. We've just established a Crown corporation. If the Member for Rhineland wants us to take a particular look at this we'll certainly look at it and determine whether there's problems with it, because I do know that the company itself just can't go out and borrow money on its own without providing a financial plan to the Minister responsible with liaising with the Department of Finance. Does Mr. Demare or Mr. Harvey have a . . .

MR. M. HARVEY: Yes, perhaps the question is related to a line of credit rather than Working Capital. We have an authorized line of credit of \$18 million which we cannot exceed and which we try to keep as low as possible because of interest charges.

MR. G. FILMON: Thank you, Mr. Chairman. Earlier, the Member for Rhineland had asked about the inventory that was being carried and I think that Mr. Harvey said that there was about two million board feet of lumber and 5,500-odd-tons of pulp and 500-odd-tons of paper. What would be the value of that inventory?

MR. M. HARVEY: The value of the rough green lumber on inventory as of March 12th was \$357,702.00. The value of the planed lumber on hand at the time, \$445,824.00. The value of the pulp on hand at that date was \$2,038,000 - these are round figures - and the value of the paper was \$3,720,000.00.

MR. G. FILMON: Mr. Chairman, looking at it quickly, that would be about \$6.5 million worth of inventory. What was the average inventory that the company had during the course of the last fiscal year?

MR. M. HARVEY: We could work it out in a few minutes if you wish. We don't have the average here; we only have the comparison of what was on hand as of September of '82.

MR. CHAIRMAN: Does the Member for Tuxedo have other questions while this is . . .

MR. G. FILMON: What was the value of the inventory on hand at September of '82 then?

MR. M. HARVEY: Okay. September of '82, rough grade lumber, \$362,000, about the same. Planed lumber, \$794,000, almost double that amount; pulp, there was \$1.9 million and paper \$3 million, so there's . . .

MR. G. FILMON: Again it appears to be just in the range of \$6 million so is it safe to assume that the inventory was in the range of \$6 million throughout the year or something like that? I'm looking I suppose at a ballpark average so I'm not asking you to work out the average. I'm trying to look at what the swings might have been in the inventory.

MR. M. HARVEY: I would guess that the inventories were considerably higher at the beginning of the year in the lumber area so that would skew the average I would think a bit. The pulp and paper inventory is probably, that's probably an average for the year.

MR. G. FILMON: Are we carrying higher inventories now than we were, say, a year or two ago?

MR. M. HARVEY: I would have to defer to Mr. Demare on that.

HON. W. PARASIUK: When I became Minister, I think one or two days after I was sworn in, I was informed by the company that we had inventories in the order of \$14 million board feet of lumber, which was an astronomical amount. The board, sometime in August of 1981, prior to that as well, had indicated that there was a major inventory build-up taking place, that the company would have to consider shutting down one line at the sawmill to get the inventory under more manageable levels. My predecessor, Mr. Craik, informed the company that that should not be considered, and as a result, the inventory levels were allowed to run up to, as I said, an astronomical level, and the company, since we've taken over administration, has worked very hard to try and bring those inventory levels down to more manageable levels. We've had to incur some short-term layoffs to do that but that's all been done to try and, in a sense, deal with the reality of the situation facing the lack of market for lumber, and the fact that it was important to try and provide that financial basis to considerations of the sawmill and the pulp and paper complex when one looks at the various types of objectives that one might want to pursue.

MR. G. FILMON: In which component of the inventory, that is the lumber or the pulp or the paper, is there the maximum value added? Am I right in assuming that it would be in the paper component?

HON. W. PARASIUK: Yes, it's in the paper component. It has the greatest capital. The pulp and paper complex as well has the greatest capitalization.

MR. G. FILMON: Are we carrying greater inventories of paper today than we were a year or two ago.

MR. M. HARVEY: I would ask Mr. Demare to respond to that. I wasn't in the picture at that time.

MR. P. DEMARE: Yes, we are carrying somewhat higher inventory of paper. A couple of years ago the paper market was quite good and we had a fairly healthy order book ahead, so as the paper came off the machine it was immediately put into rail cars and shipped. At present the order book ahead, as we all know, for the last year has not been as good, so quite often paper is made, but for delivery a week or two further on. So you have to carry a couple of weeks on hand quite often.

MR. G. FILMON: Is there any greater labour component in producing the paper than there is in lumber?

MR. M. HARVEY: Mr. Chairman, the sawmill is a more labour intensive process.

MR. G. FILMON: The chairman has referred on a number of occasions to a major competitor in the unbleached kraft field. Can the chairman tell us who the major competitor is?

MR. M. HARVEY: Yes, I think that's quite well-known. St. Regis built a mill in Pensacola, Florida, a few years back and have succeeded in putting a grade of unbleached kraft on the market that is excellent and, although, as I referred to earlier, they use essentially the same process as our mill does. They have state of the art technology, such as computer controls and things like that, that allow them to produce a better grade. We need to be concerned about that kind of competition.

MR. G. FILMON: Earlier the chairman of the board referred to the pulp and paper market as firming but not increasing. I wonder if he could tell me what that means.

MR. M. HARVEY: As I understand it, the market is becoming less sporadic, if you like, but the volume is not increasing. In other words, the orders are coming in a more regular way but there is no increase in demand as yet.

MR. G. FILMON: Is the company anticipating increased demand over the short term?

MR. M. HARVEY: If you look at the forest products market, it appears that paper products track lumber by about 12 months, so if you assume that we're in a rising lumber market which began last fall and everything else holds true, then I suppose we could anticipate a demand in paper and pulp products in September.

MR. G. FILMON: Earlier on, Mr. Chairman, the Minister referred to investments that he said should have been made prior to 1981, and he has given us a broad range of options that are being looked at. Is the government committed to making any investments whatsoever in the plant this year?

HON. W. PARASIUK: I think over the course of the last year we made some small investments to improve the quality of product that we're producing. It would

be our intention to make some investments with respect to that facility over the course of the next year. Again, I wouldn't want to pre-empt our negotiations with the Federal Government as to what we think their fair share is with respect to those investments. I hope that we'll get some indication from them over the course of the next three months on that.

MR. G. FILMON: What was the dollar value of the small investments that the Minister referred to during the past year?

MR. M. HARVEY: The investment that is being referred is a double screening process in the pulp mill which improves the cleanliness of the product and opens up potential other market for us. Its dollar value is around \$1 million and it's currently being run in.

MR. G. FILMON: I wonder if the Minister can indicate how long he and his government are prepared to tolerate a \$20 million annual loss on the complex before they make their major decisions for, indeed, it takes some drastic measures to change the current operation at the complex.

HON. W. PARASIUK: We're hoping that we can come to our decisions on this by this fall. Obviously, the fall is the time for us to make the major decisions with respect to that complex. We feel that we'll have given the full run to the federal-provincial joint process, and we've received early commitments that they will be providing the funding. We hope they honour those commitments. We feel that we've, in a sense, done everything with them in a joint manner where everything in a sense has been exhausted. They have examined all the alternatives, so we believe that by this fall we'll be able to make those decisions.

MR. G. FILMON: In earlier responses the Minister indicated that the optimism of the government or the intended course of the government was based on a number of "ifs" and he said the two major ones were: if we do get an upturn in the market; and if we do have the Federal Government respond positively to the financial proposals and requests that have been and will be put forward. What if those two major "ifs" do not materialize? What is the government then prepared to do with respect to a complex that is losing \$20 million a year?

HON. W. PARASIUK: Obviously, we'll have to take another look at it with a view to, in a sense, rationalizing that operation and putting it on a more viable basis. We've been undertaking those decisions over the course of the last year. It was this government that decided to deal with the inventory problem that was left to us. It was this government that has decided that we would do whatever we can in terms of intermittent layoffs to try and bring, to try and decrease that loss in a very very difficult recessionary period where all companies have been faced with these problems.

We certainly haven't backed away from taking some difficult decisions. We've taken decisions with respect to providing alternative forms of fuel for that operation. All have been geared towards trying to reduce the losses

being incurred by that facility, while at the same time trying to organize ourselves to put that facility onto a longer term basis, where there would be more viability and whereby there could be more stability over a longer period of time. That's the objective that we still have and we will certainly be prepared to make the decisions required as we proceed with these developments.

MR. G. FILMON: Last year there were two periods each of 22 days in length in which the pulp and paper operations were shut down. Does the Minister anticipate any shutdowns this year?

HON. W. PARASIUK: The company has developed plans for shutdowns to deal with variations in the market and I think I could ask Mr. Harvey to indicate some of the specifics. I'm not sure the extent to which all of these have been communicated so it may be difficult to be that precise with them all.

MR. M. HARVEY: We have followed a practice in the pulp mill of stretching out what are regular maintenance shutdowns. In the industry it's a practice to close your pulp mill down and do some maintenance in the spring and in the fall. That normally is in the order of five days. In order to minimize the effect on employees of layoff, what the practice has been is to extend that to 10-to 15-day maintenance period and use our own employees, where before, when time was of the essence, contract employees were brought in to help with the maintenance.

We had one of those shutdowns occur in November; we are going into one in the very near future, I think, it's April 25th to the 12th of May. We anticipate, if there is no change in the market, a shutdown in July of three weeks duration - this is the pulp mill I'm speaking of. If the market continues, which we don't really expect it to do, but to be on the downside, then we would repeat the exercise with the maintenance shutdown in November.

When the pulp mill closes down it has been our practice to shut down the sawmill as well, because the pulp mill generates the steam for the complex and we need steam in the kilns to dry the lumber. We shut the pulp mill and the lumber division usually go down over the same period.

With respect to the net effect on Woodlands, because reduced operations require reduced inventory in logs, the present projections for Woodlands is for them to take a three-month shutdown commencing in May. One of those months is July, which is their normal time of holidays anyway. The net effect on Woodlands employment is two months. That's our projections for this year and that will remain if nothing changes in the market.

MR. G. FILMON: Is the production on the sawmills still at one shift a day?

MR. M. HARVEY: Yes.

MR. G. FILMON: So that the 88 employees who were laid off have not been recalled?

MR. M. HARVEY: They have not been recalled.

MR. G. FILMON: No further questions at present, Mr. Chairman.

MR. CHAIRMAN: The Member for Morris.

MR. C. MANNES: Thank you, Mr. Chairman, I just have two brief questions.

First of all I'd like to have some perspective of the size of Manfor in the sense of Canadian production. What percent does it represent of Canadian production within the industry?

MR. M. HARVEY: Yes, Mr. Chairman, I'm not certain that I have the answer to that. Perhaps we could ask the two operating managers to give that perspective from their separate kinds of involvements. Mr. Jonas on behalf of lumber. Do you have any idea, Mr. Jonas, what percentage our manufacture represents in the lumber industry?

MR. CHAIRMAN: Mr. Jonas.

MR. W. JONAS: On the lumber I don't really have a figure on it, but I would say it'd probably be about a tenth of a percent possibly in that area. It's a very small operation, in total.

MR. C. MANNES: I've heard a lot of mention being made about how firms within the industry have attempted to maintain viability through these difficult times. No doubt some of the largest firms have adopted the latest technological advances to ensure efficiency once better times come about.

I'm wondering, has consolidation taken place within the industry, and indeed, within the North American context, must it continue to ensure a viable industry in the future?

MR. M. HARVEY: If I understand the question correctly, the market seems to be extremely volatile. An example might be that it's now the considered opinion of those who know that if you are going to invest in a sawmill, for example, you should not invest in anything that requires a payback of longer than five years because you may be reinvesting again. I think there is some cases, particularly in Canada's west coast, where companies have put in new technology and then put new technology on top of that before the payback period took place. I think that's just a fact of life at the moment.

HON. W. PARASIUK: There also are some companies that are just aren't operating. It would appear that unless there's a tremendous pickup on the prices that they, in fact, will be mothballs. You're having some supply being taken out of production.

I think on the kraft pulp side that may be happening, although companies have the ability to switch from a mediocre quality kraft paper to liner board and they can go back and forth between the two. It may be that some of them will just get out of the kraft pulp production though, which may leave more room for us. We can't quite tell that at this particular stage of the market cycle.

MR. C. MANNES: Mr. Chairman, I've heard the phrase payback being used many times. Mr. Harvey's just

indicated that, indeed, the five-year criteria is used in consideration in some west coast projects. Has the government applied any criteria to any of the investments that been discussed here today, and what year payback, under the present scenario, how many years payback do we end up with in any of the analysis done to date?

HON. W. PARASIUK: From the work being done on the studies, they've been looking at a maximum of 10 years.

MR. C. MANNES: Thank you.

MR. CHAIRMAN: The Member for Sturgeon Creek.

MR. F. JOHNSTON: Mr. Chairman, we've had a fairly wide-ranging discussion on some of the problems - GATT being one of them - and there's been representation made, for three years that I know of, on the decision of GATT regarding our industry in Manitoba. We've discussed markets; we've discussed the inventories.

On Page 5 when we say "To maintain our position in the marketplace and improve our commercial viability, we need to update the physical facilities to take advantage of the latest technological advances." It goes on to say "especially in the sawmill."

I would suggest that, as far as the sawmill is concerned, with the comments that were just made about some of your competition having new technology that is making them more competitive; then when we move down to the pulp mill, we say we have a competitor that is presently outpricing us and making a better product. I'd say that the market has changed already when that happens. You're not talking about future markets, you're talking about the present markets and there's a change because you have competition that is outselling you.

The Minister said that he has a study going at the present time which is an overall study which takes into the third phase of the bleached product. He did say that he was hesitant to have any backup while working with the Federal Government while he is dealing with this overall study.

I would like to know if he's going to maintain that position because I think the study has to be in two phases. We have an operation here now that can't compete because it needs new equipment immediately; we have an operation that can't compete because we have a competitor that's knocking us out of the market, so we need that immediately. That figure seems to be, I believe the Chairman said about \$40 million to do that.

Now I think somewhere along the line, if the unbleached product still has a five-year market, and it must have some market or your competition from Florida would not have gone into it as much as they did, what is being done with the Federal Government - I stress that the Federal Government should be involved - what is being done to take care of the immediate situation which indicates that facility will darn near have to close unless you become competitive.

HON. W. PARASIUK: Yes, I think I dealt with that earlier on in the discussion. I said that we believe that the

Federal Government does have an obligation. It was their negotiation that put Manfor into a more vulnerable position with respect to the Canadian market for kraft paper. We have received a commitment from them, we are proceeding with this - this is not just an overall study - we are looking at the specifics. We are hoping to conclude this study over the course of the next month or so. We then want to take it through the federal system and, I hate giving exact timetables on how one takes something through the federal system because that sometimes can be a bit of a byzantine experience. We certainly would like to get through that process by the summer or early fall and we hope, then, that we would be making decisions and making investment decisions and committing investment decisions with respect to that complex.

What's happened is that the one company has developed a stretch kraft that is doing quite well. We, ourselves, have an ability to get into that stretch kraft because we have a process that allows us to go on into it whereas other companies would themselves have to incur \$200 million expenditures to get into that area. So in a sense we have some comparative advantage when it comes to best quality or better quality kraft paper and there could be a market still being maintained over a period of time in that area.

Of course, on the sawmill side we have a sawmill which is basically geared to a westcoast model. It's a sawmill housed in a building of 11 acres, when in fact probably one or two would be all that's needed. It's a sawmill that is geared to large logs, it doesn't sort out the smaller logs particularly well. Again, those are the types of changes that have to be made and we certainly will be undertaking those changes. We do believe, however, that it is important not to let the Federal Government off the hook in this respect. I don't say that in a pejorative way because over the last year I've found that they have been very co-operative. Now, we want to bring this to a head and have some decisions made over the course of the summer and get moving.

MR. F. JOHNSTON: In other words, then, I can conclude from what the Minister has said that there will be action taken on the extreme serious situation at the present time. I don't see any other way of looking at this from a business point of view, if you can't sell your product because you're being outpriced and you haven't got the proper equipment as far as the sawmill is concerned, you've got a serious situation and if it goes past three or four months you've got a situation where you're not going to lose just \$20 million, in the future years you're going to lose more.

When the Minister says that he was hesitant to have a backup program, I would hope he is not being too hesitant in not having a backup program but it's fairly obvious this complex has to have \$40 million in it to remain competitive as it is.

HON. W. PARASIUK: I said I was hesitant to talk about the backup when, in fact, we're involved in negotiations with the Federal Government because I do want to get the fullest input from the Federal Government. I'm not going to say that if the feds don't do anything we're prepared to do XYZ, because frankly, we believe that there is a very strong commitment that we expect them

to uphold in this respect especially since many of Manfor's problems are the result of the change in the tariff at least in the shorter run. Over the longer run there are structural changes taking place. A major structural change taking place over the longer run is that people are switching, in some areas, from kraft paper to plastic and obviously over the longer run that may, in fact, mean that the overall kraft market weakens more and more over the longer run. There has been a move by one company that has maintained a position, at the same time this company had to undertake a very major investment, and they may have some difficulty covering their own costs in that respect. We ourselves could make a smaller investment and move in that area and again I don't want to pre-empt those final stages of negotiations with the Federal Government but we certainly are going to be acting with respect to that plant.

MR. F. JOHNSTON: That pretty well ends the questions. The Minister is obviously not going to make a commitment at the present time for \$40 billion to this plant until he is finished with the Federal Government but it's very obvious that if this plant doesn't have it regardless of whether the man in Florida might have had to spend \$200 thousand we only have to spend about, I guess it's a little over 20 or 25 to get our pulp mill in shape to do that. It's either that or nothing or wait for 15 years to get it unbleached. I believe the figure was 15 years to gradually get yourself into that position in the market so it's either something is done or we've got a real serious problem with the plant and it's not only a problem with the plant, it's a problem with employment and all that goes with it. I would hope that the decision is that it's not going to be allowed to deteriorate any further.

MR. D. SCOTT: Thank you, Mr. Chairman. I've got a couple of questions. I was looking through the statements and I can't get the number of employees and earlier one of the gentlemen from the company stated that the lumber operation was more labour-intensive than the other one is and I'm wondering if what he referred to in that is that there's more employees in the lumber than there is in the pulp operation. Could you give us a number of employees that are currently employed on the two operations? Also possibly the Woodlands as well if you could.

MR. M. HARVEY: Mr. Chairman, the employment, of course, fluctuates at various times of the year depending on what's happening. Our average employment for the year that we're looking was 702 employees, that's direct employees of the corporation and there's an additional 161 carried by contractors of the corporation. The number of people employed in Woodlands in 1982 was

a high of 197 of our own and high of 268 contract and the low in that same period was 106 of our own and 47 contract. Now, that fluctuates depending on what's happening in the bush.

In the pulp and paper division our high for 1982 was 364, our low was 338 and in the sawmill our high for 1982 was 197, our low 112. I would say that the average number of employees right now would be slightly over 700 employees.

MR. D. SCOTT: Thank you. So the Woodlands operations when they're cutting do they separate at source the lumber as to what's going to lumber and what's going to pulp or is that separated once it gets in the yards?

MR. M. HARVEY: That's sorted at the land.

MR. D. SCOTT: On the site. The numbers you were giving for inventory earlier I was trying to compare with what we have in the inventory statement, I believe it's note No. 4 on Inventories. The figures you gave a little earlier were, I believe, in the vicinity of 350,000 for raw lumber, finished lumber 445,000, pulp around 2 million and paper around 3.7 million. I believe you went back and gave figures for September as well and they're not anywhere near close to the ones that are represented here and we must be talking about two different sets. We've got a figure of log inventories at cost September 30, 1982, of a net realizable value of \$8.7 million. It's Note 4 to the Financial Statement is what I'm looking at, and it's an awful long way from the \$350,000 that was mentioned.

MR. M. HARVEY: If you'll just bear with me for a minute. I gave you two figures; I gave you a current level and the fiscal year ended . . . Yes, if you look at the column entitled 1982, down to lumber, the finished product is quoted there at 794; do you see that?

MR. D. SCOTT: Right, okay, under Finished Goods.

MR. M. HARVEY: Rough lumber is, work in progress; it's not counted as finished inventory and the figure I gave you earlier was \$794,145.00.

MR. D. SCOTT: Okay, and you're now down to about 445 at March 13th?

MR. M. HARVEY: At March 13th, 445.

MR. D. SCOTT: And on the raw lumber? The raw lumber is compared to the work in process for raw lumber?

MR. M. HARVEY: Work in process, yes, it would be comparable. The number here is 363; the number I have is 362.6.

MR. D. SCOTT: Move up to the higher on production, raw materials, on log inventories at cost. What kind of a figure do we have in that category, currently?

MR. M. HARVEY: Log inventories at cost. Currently we have 89,000 units. We have a dollar value of \$4.9

million, but that figure will change with the season, as well. Sorry, I have to revise that. That's the bush inventory, in other words. The cords of wood that are in the bush. In the logs on mill site, there is 100,000 cords, roughly \$9.2 million, and there are 13,000 cords of chips on site at the moment, \$1.2 million.

MR. D. SCOTT: That adds up, I guess, to about \$13 million - \$14.1 million with \$4.9 million in the bush and \$9.2 million at The Pas site, currently.

MR. M. HARVEY: Yes.

MR. D. SCOTT: Is that the net figure, less the adjustment to net realizable value?

MR. M. HARVEY: I would have to defer to Mr. Demare. What figure is used in these?

MR. P. DEMARE: If I can have just one-half second to look it up?

MR. D. SCOTT: Sure.

MR. M. HARVEY: For purposes of the Balance Sheet, the figure used in our Balance Sheet is net realizable value, rather than cost.

MR. P. DEMARE: The \$50 million that was given there is at cost and there's an inventory adjustment down of \$1.7 million.

MR. D. SCOTT: \$1.7 million, so we'd be talking then it would seem about \$12.4 million, I believe. How would that compare with last year at this time; would it be higher? I appreciate you probably don't have the figures at your fingertip on that, but are you running higher inventories this year than you were last year?

MR. CHAIRMAN: Mr. Jonas.

MR. W. JONAS: The physical volumes are approximately the same. The dollar value is a bit more now, just because of the increase in value of the cost of the materials.

MR. D. SCOTT: To divide that between the two operations, of the pulp logs versus the lumber logs, how would that share up this year compared to last year, because this is a gross figure here including both.

MR. W. JONAS: There is an increase in the number of pulp logs and a decrease in the number of saw logs because, in the interim, we have gone from two shifts in the sawmill to one shift, and it does take a period of time to make a shift, but we have done it. When we go back the other way we'll have another period of adjustment while we make the shift.

MR. D. SCOTT: Are you attempting then to move, to some degree at least, away from the lumber operation and building - I guess I don't want to say building a future in it - but at least on the short term you're trying to reduce your inventories in that section which appears,

at least I gather is the least profitable part of the operation, versus the pulp operation?

MR. M. HARVEY: Cutting plans, of course, must proceed at some future time of the actual utilization, so if you shut a shift off in the sawmill, then you have to make some speculation about how long that level of saw log requirement will be maintained and make your cutting operation fit that. As Mr. Jonas says, if you turn it around then you have to compensate the other way to bring your mix back up.

MR. D. SCOTT: I guess what I'm trying to get toward is the amount of inventory. I understand that we found ourselves a year-and-a-half ago or so with somewhere around a year's production on the lumber side.

MR. M. HARVEY: That's finished inventory you're speaking of.

MR. D. SCOTT: Finished inventory, yes.

MR. M. HARVEY: Not log inventory.

MR. D. SCOTT: Right, and how much does the present supply represent? How many months supply would we be in?

MR. M. HARVEY: We have virtually no lumber on hand at all at the moment; 1.9 million feet was the last recorded level, as opposed to 17 million, at a high.

MR. D. SCOTT: That, to say the least, is a substantial reduction. In the future, do you see yourself getting tied back into a position of having a high inventory of finished lumber or of logs on hand that are for lumber processing? Like, if you have a large surplus of logs that have come in but are not going to be going through the sawmill, are they just left out in the yard, or do you switch those over to be used in the pulp operation, or what kind of inventory switching can you undertake there?

MR. M. HARVEY: Well I would maybe ask Mr. Jonas to supplement this but, as I understand it, you do have some ability to, by determining your cutting areas, to reduce or increase the number of saw logs in the mix and I think that's one thing he's done. Now he may have made some other adjustments. Mr. Jonas.

MR. W. JONAS: Finished lumber inventories first, it's necessary to maintain an absolute minimal of about 1 million - 1.25 million feet of lumber just in order to supply orders as they come in because we have different lengths, different sizes. As far as logs are concerned, on an overall situation, because of the type of terrain that we have in the North and the cost of constructing roads, overall between our bush inventory of logs, our log inventories at the sawmill and the pulp mill and chips are waiting for cooking in the pulp mill. We need to look at approximately six months supply in order to make sure at certain points of the year that the mills do not run out of wood, in other words, just to keep the pipeline filled.

When we have a change either up or down, for instance, in the sawmill such as we did a year ago, it

takes between four and six months to effect a change in size of material, and during that interim we do an extra sorting job normally and take the poorer quality saw logs and move them to the pulp mill so that we decrease the log inventory for the sawmill at a faster rate than we actually do out in the bush and vice versa. Going back, we need to have about six to eight months advance notice so we can get the proper size of logs flowing. If we don't have that, then we have to use what we would normally consider pulp logs as saw logs in an interim period.

MR. D. SCOTT: Which would be that less efficient - trying to use pulp logs for saw logs.

MR. W. JONAS: Yes.

MR. D. SCOTT: On the financial side again, if I could go back to that for a second, we don't have a breakdown for the recent estimate for the profit and loss - the losses we're speaking of here - on the pulp operation versus the lumber operation. I wonder if you could give us some sort of a breakdown between the two here of both last year's and next year's estimates of what the losses, how they could be attributed if they can be.

MR. M. HARVEY: Yes, we operate the mill as a profit centre. There are some figures that we use internally for management where I suppose you could say that there's a profit centre in the sawmill and one in the pulp mill. There is some commercial danger in disclosing too closely your production costs. It gives you a commercial disadvantage. I would not like to make that separation because it's too easy to calculate some of our costs that we are achieving and puts us at a disadvantage when we're selling.

MR. D. SCOTT: Even in comparison to those people who are running strictly log operations?

MR. M. HARVEY: I don't think I understand the question.

MR. D. SCOTT: Well, if you're competing with people that are running strictly a log operation, they don't have a division between the logs and the pulp.

MR. M. HARVEY: Yes.

MR. D. SCOTT: I can't see that much difference in a market where if your costs are divided up for the two operations, do you know or do you have a good feeling - I guess would make me a little more comfortable - as to what the operations and the costs of operation and the revenues to that operation of the two different sides of your plan?

MR. M. HARVEY: Yes, we do have accurate figures on the profitability of each division. I hesitate to use production costs in this.

MR. D. SCOTT: Can you give me approximate net figures? Would that be going too far?

MR. M. HARVEY: I would hesitate to do that. I would say that the pulp mill, given the current loss position, is less of a liability than the sawmill.

MR. CHAIRMAN: The Member for Rhineland.

MR. D. SCOTT: I have one more if I could on another subject.

MR. CHAIRMAN: The Member for Inkster.

MR. D. SCOTT: Regarding the Pensacola operation, they are using an inferior wood, are they not? Your northern wood, from what I gather, and the black spruce particularly, being a slow-growing tree, and climatic differences, that you have a very long fibre to work with and therefore a very strong fibre. In the south, they'd be using their ponderosa pines or whatever pine that they're using, a very fast growing, probably in the life range of 30 to 40 years of growth versus ours pushing 100 years. I'm wondering if that doesn't give us some advantage or how much of an advantage that would give us compared to them if we get equivalent computerized equipment put in the plant as far as for quality of the end product.

MR. M. HARVEY: Well, perhaps, Mr. Bown might want to supplement this answer, but my assumption is that if we had the level of technology that the Pensacola mill had, then we could take advantage of our northern slow-growth wood. Maybe Mr. Bown would be able to add to that.

MR. CHAIRMAN: Mr. Bown.

MR. D. BOWN: I think it's safe to say that the fibre is better in northern fibre. It does have one characteristic that perhaps is not a benefit, and that is that the faster growing wood does allow for better porosity of the sheet, but other than that it is a far better fibre and gives a stronger sheet. I think overall, with similar technology, that we would have a product that would sell certainly offshore better than the American product, and in Canada and the States it would probably be slightly better.

MR. D. SCOTT: Do you see any additional losses in market to the plastic bags such as we've seen here? About the only place in Winnipeg that I've shopped recently that still has the paper bags is unfortunately Red River. Most of the other stores have gone to a plastic bag. Is that market going to hold? Are your expectations that you're going to be able to hold both on shore and overseas?

MR. D. BOWN: One of the major reasons for looking at the alternative of upgrading is to get out of that market and get more and more into a multiwall market which requires laying a stronger bag, stronger fibre characteristics. So that is one of the major reasons for asking for an upgrade just to get away from that.

MR. D. SCOTT: Thank you, gentlemen.

MR. CHAIRMAN: The Member for Rhineland.

MR. A. BROWN: Under Accounts Receivable, I notice that we have \$6 million on the top, on the trade part, almost \$6 million. What is the policy of the company?

Do they give their suppliers 30 days, 15 days? Is it cash? What does this figure represent?

MR. M. HARVEY: I would ask Mr. Demare to deal with that.

MR. P. DEMARE: Are you looking at the balance sheet or the notes?

MR. A. BROWN: Statement No. 5.

MR. P. DEMARE: Net, 30.

MR. A. BROWN: Net, 30; so that is the figure that this \$5 or \$6 million would represent?

MR. P. DEMARE: Yes, that is the general case, although there are exceptions to it, but the bulk of the accounts are net, 30.

MR. A. BROWN: Under Trade, I notice you have Other. There's \$900,000 in that, 918, can we get some explanation on that figure? Who would that be?

MR. P. DEMARE: Can I have a few minutes to see if I've got the answer in my files?

MR. CHAIRMAN: Mr. Demare will look up the answer.

MR. P. DEMARE: That is composed of a whole host of other things. We do have a small engineering division. There's a small amount of accounts receivable there. There's a small number of rentals. We have five apartment blocks. There's some rentals that are there. We have some skidder owner-operators where we have financed the purchase of their equipment. That is in there. We had a former camp that we sold to one of our major contractors. That will be over 100,000 of that. It's composed of numerous smaller items like that and is just shown separately to distinguish between the two main trade accounts receivable that we have which are lumber and pulp and paper.

MR. A. BROWN: I notice that in your statement you have no allowance for bad debts. Can you tell me how many bad debts you would have in over a period of year?

MR. M. HARVEY: Yes, perhaps Mr. Demare can supplement. My understanding is that our experience in that area has been very good. We have had very little problems with bad debt. Mr. Demare.

MR. P. DEMARE: You are correct. In the course of an average year we would not have any bad debts. I think in the entire history of the company we have suffered losses three times and those were all minor. They would not even register as a percentage of accounts receivable.

MR. A. BROWN: That's very good. That means that nobody has declared bankruptcy, so that you got caught with a bad debt.

On Schedule 2, we have commissions. I wonder if somebody could tell me what our marketing procedure

is; who does the marketing for Manitoba Forestry Resources? Who are these commissions paid to? I don't want names.

MR. M. HARVEY: Yes, Mr. Demare has a fairly large responsibility in the marketing area and he's more familiar with it. As I understand it we market some goods direct, but we also market through sales groups, one in the United States and one in Canada. I'm not sure if that's where the commissions are. I would imagine that's where they are, but Mr. Demare could elaborate for you.

MR. P. DEMARE: Yes, basically you are correct. Virtually all Canadian sales we make are with our own staff. The U.S. is done through agents. Offshore, it's a combination of our own direct sales and some commission agents. There are some countries, for example, where there is no Canadian Embassy; where it would actually not be safe for a Canadian to go. There we, of course, would use whatever agents are best suited for that particular country. Other countries are very hospitable to Canadians and trade, we have good embassies and we can deal directly. — (Interjection) —

MR. A. BROWN: I suppose in the United States you would be working through distributors. Do you have the entire U.S. covered through your marketing agency?

MR. P. DEMARE: The answer is yes and no. We have the entire U.S. covered, however, freight becomes a major factor particularly in lumber. The closer to your mill that you can sell the less, of course, the freight is and the more freight advantage you would have as compared to another competitor. So, the answer actually is yes we are represented, but we do not necessarily sell throughout the entire States pure and simple, because the freight rate either is in favour of us or too far against us.

MR. A. BROWN: What percentage of your sales would be offshore?

MR. M. HARVEY: We don't sell any pulp to speak of, offshore. We sell 68 percent of our paper domestically in Canada; 13.4 percent in the U.S., and 18.3 percent offshore. I don't believe we sell any lumber offshore either. Was it just the pulp you were interested in or what?

MR. A. BROWN: I was going to ask you for a breakdown, but if it's only pulp offshore, that's fine.

MR. M. HARVEY: Just paper offshore.

MR. A. BROWN: I notice that you have a huge figure under freight and storage. I wonder if I could have a breakdown on that figure? There is \$6,400,000.00.

MR. M. HARVEY: I would defer to Mr. Demare.

MR. P. DEMARE: I'd just like to quickly refer to the figure you're looking at.

MR. CHAIRMAN: Which statement?

MR. A. BROWN: Schedule 2.

MR. P. DEMARE: Virtually all of that is freight. There's very little storage involved in that figure. The freight costs, just to give you an example, are roughly \$50 to \$60 Canadian a metric tonne, to get it to port. Then to most overseas locations approximately \$100 U.S. Right now it's very competitive so in most cases we can get about \$85 U.S. You're looking at perhaps \$160 freight on a shipment offshore.

You're usually looking at about 25 percent of your total gross selling price as being freight. The closer to home that you sell, of course, the lower the freight costs. Just going by memory, I think there's \$102,000 of storage. It's the only storage that's involved in that figure.

MR. A. BROWN: One final question. It seems to me that almost every industry always settles FOB at a certain point; whether it would be FOB The Pas or FOB Winnipeg. Does the entire industry assume the freight cost? This seems a strange way to me of doing business. Like I said, usually it's FOB at a certain point and from then on whoever the purchaser is, is also responsible for the freight.

MR. P. DEMARE: The normal method in our industry of selling paper offshore is what is called C and F; that's Cost and Freight to Port of destination. What you normally do in a case like that is you would cover yourself with an irrevocable letter of credit based on clean on board ships bill of lading, freight prepaid to port of destination. That is usually either C and F, as I've just described to you, costs and freight and that is the normal basis on which we sell. In some cases, such as Scandinavian mills where a number of them would band together and they have a great deal of offices around the world, they might sell CIF which is Costs, Insurance and Freight. But in order to sell on that basis, you would actually have to have someone at the other end to examine the goods as they come off the ship to see whether you have an insurance claim or not.

That is the standard in our industry.

MR. CHAIRMAN: The Member for Turtle Mountain.

MR. B. RANSOM: My colleague for Roblin-Russell has one question, Mr. Chairman, I'll defer to him.

MR. CHAIRMAN: The Member for Roblin-Russell.

MR. W. MCKENZIE: Thank you, Mr. Chairman. It refers to Schedule 3 on the last page of property business capital and payroll tax. Could I have a breakdown of the payroll tax it cost the company in '82 and what they expect it will cost for '83?

MR. CHAIRMAN: If the member would just wait a moment.

MR. W. MCKENZIE: Later is okay.

MR. CHAIRMAN: While this question is being looked at, would the Member for Turtle Mountain proceed with this question?

MR. B. RANSOM: Thank you, Mr. Chairman. I believe I heard Mr. Harvey say in response to questions asked by the Member for Inkster that the pulp operation was less of a liability than the lumber operation, is that correct?

MR. M. HARVEY: That is correct.

MR. B. RANSOM: Mr. Chairman, then that would seem to indicate that there would be great urgency for the government to proceed with a small investment in the sawmill operation. The figure that's been talked about is 9 and 10 million as compared to into the hundreds of millions to deal with the pulp operation. Now, surely then, if the major liability can be dealt with by an expenditure of 9 to 10 million, the government should carry out the Premier's commitment made during the election and get on with it. Could I have some response from the Minister then on that point?

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: I have said that by this fall we certainly will be getting on with it. We've done all the preparatory work; we're getting all the final work done and we'll be in a position to move. I might point out, Mr. Chairman, that the previous administration did not carry out recommended improvements to the sawmill, which were recommended by the management, which were recommended over and over again by the board. Mr. Chairman, those were somewhat less costly at that particular time, but we certainly intend to deal with this matter by this fall.

MR. B. RANSOM: Perhaps the Minister could tell me exactly when those recommendations were made?

HON. W. PARASIUK: There is one going back, in terms of the files that I've looked at and I'll be checking to see whether they go back further than that, certainly to June, 1980, again repeated in September, again repeated in February of 1980, again repeated through 1981, and those were not carried out. I'll certainly be checking the files over the course of the next few weeks to see whether in fact it goes back earlier than that, to see whether it goes back to '79, '78, '77. I'll certainly be in a position to comment and respond on that when I get into the departmental review of the Estimates of the Department of Crown Investments.

MR. B. RANSOM: What we're talking about then, Mr. Chairman, is a recommendation which the Minister says was made to our government in 1980 and 1981 at a time when there were active negotiations ongoing about the future of the company. Now we have a situation where much more time has elapsed with this Minister responsible for the complex than followed upon the dates which the Minister just gave us; therefore, it seems incumbent upon the Minister to act. At the time that those recommendations were made, we weren't faced with \$13 million losses and \$20 million losses projected. The loss that's projected for the complex this year is more than twice as much as we're told would be required to do the upgrading, and that if the sawmill complex is the major liability, then surely it would have

made sense to proceed as quickly as possible with that part of it, since it seems to be a relatively small investment overall compared to what would be required elsewhere.

MR. CHAIRMAN: Mr. Minister.

MR. B. RANSOM: I'm sorry. Well, if the Minister wants to respond, I have some questions in another area.

HON. W. PARASIUK: No, I'd like to just respond. We certainly haven't, as I said, shied away from looking at the long-term requirements. In fact, it wasn't this administration, but the Conservation administration, that allowed the buildup of a massive amount of inventory when they were told specifically that — (Interjection) —

MR. B. RANSOM: What does that have to do with it?

HON. W. PARASIUK: I'm just talking about whose dealing with this in a businesslike basis and who hasn't been dealing with it on a businesslike basis.

We had the buildup of inventory to 14 times their normal level because an election was coming on stream. We had a situation where a whole set of minor investments that should have been done where payback could have been quick were not undertaken, Mr. Chairman, because the Government of the Day chose not to. We did not end up with any type of final negotiations with respect to Manfor and we were caught in a state of limbo.

We have taken the opportunity to negotiate with the Federal Government to get a commitment in place, that we want to ensure that we cross the t's and dot the i's to ensure that we get that commitment not only for the sawmill but for the pulp and paper development because we believe that's what's entailed now. We're prepared to make that decision by the fall and, Mr. Chairman, I think that if one will reflect back on that you'll find that we will be in a position to establish a sound base, we hope.

The only qualifier there, and that's the qualifier when people start looking at what the market situation has been, or hasn't been, has been the fact that we've gone through the worst recession that the North American economy has experienced since 1930, so that's had a major impact on sales and profit margins.

MR. B. RANSOM: Mr. Chairman, we see, unfortunately, there seems to be a pattern developing here which we've become accustomed to in the Minister's handling of major economic developments within the province. This seems to be a situation where there was a commitment made by the Premier, then the Leader of the Opposition, during the election to make an immediate investment if they recognized that requirement then and the promise was made. Since a year-and-a-half time has passed, the company now has lost something like \$13 million. It's projected to lose \$20 million, and the chairman of the board says that's where the major liability is, in the sawmill area, then I can't understand why the Minister hasn't acted now. Especially since a year ago, when we were in committee, we were told that those improvements were going to

be made. I could go back to the Hansard from last year and find, I'm sure, in here where it says that Mr. Hallgrimson had said, on Page 38, June 3rd, "The second reason for the decrease in net profit is our high cost of production in the sawmill. This comes about due to the small saw logs we have to put through our saw lines. To bring these costs down requires the installation of new saw lines which are capable of processing our small saw logs at a faster rate. We currently have this matter under study and hopefully this problem will be overcome in the current year." So we were given indication at that time that the company was going to deal with that problem in the current year and that doesn't seem to have been the case. All we can do, in opposition then, with the problem having been identified to the extent that it has, is to urge the Minister to get on with that, if indeed we can get the benefits from it, which have been indicated to the committee that we could expect to flow from it.

The Minister made reference to buildup of inventories which, of course, allowed people to remain employed. Following upon that, and questions asked by the Member for Inkster and the Member for Tuxedo, could Mr. Harvey give us a rough indication of the percentage of full employment which the corporation achieved in the year under review?

MR. M. HARVEY: Yes, the year under review, part way through that year the sawmill went down to one shift. I think that took place about six months into the year, so we were 50 percent on the sawmill from then until now. I believe the pulp mill, if you take the downtime, would be perceived to be operating at about 80 percent capacity, then until now. Our average employment is around 720, I believe, at the moment and I think the high, and I caution you that this may fluctuate seasonably, was around 1,000 at the very top, the highest that was ever employed there. So I guess our lumber division is running at about 50 percent and our pulp mill about 80 percent and I would have to ask Mr. Jonas to supplement in the Woodlands because I'm not sure of the effect there.

MR. W. JONAS: Between those on Manfor's payroll and those on our contractor's payroll, Woodlands at the present time is operating at about 50 percent. The reason for that is that we had to operate it a bit longer than we should have at a higher number because we thought the lumber market might turn around a bit sooner than it actually did.

MR. B. RANSOM: Are we talking about in the range of 60-70 percent of full employment?

MR. M. HARVEY: I would say that would be an average, yes.

MR. B. RANSOM: There are a number of questions that I wanted to deal with here so I'll try and move through them fairly quickly.

One of the items which Mr. Harvey mentioned had to do with the costs having lost ground competitively. One of the things he mentioned was cost, which of course makes sense. How do the salary scales that are paid in the complex compare to other operations,

compare to pulp and paper, lumber operations in B.C. or wherever there might be ones that are making a dollar?

MR. M. HARVEY: The salaried employees, I understand, we are lower than the industry in the salaried category. In the hourly category, our wages are somewhat comparable to the west coast. There is some difference there that doesn't translate out directly into wages but I think our hourly is pretty well close to the west coast. I can't give you a definite answer on all of the salaried employees but inquiries I've made for specific positions at the higher end of the salaried level would indicate that we are somewhat lower than salaried employees at the top of the management spectrum.

MR. B. RANSOM: I'm assuming though that the bulk of the cost is going to be in the hourly employees.

MR. M. HARVEY: That is correct.

MR. B. RANSOM: Does the Chairman consider that this is one of the factors why the complex can't be economically competitive at the moment then? Speaking generally, are the wages out of line because we're trying to run an operation in a marginal area as opposed to running one in B.C. for instance?

MR. M. HARVEY: Without having any definite study, I would say yes. That's what it would appear to be. If you look at size of logs, for example, and the distance from the mill, distance from markets, we probably have several disadvantages that would make a general assumption possible that west coast wages are not appropriate.

MR. B. RANSOM: Is the Chairman hopeful that by having representatives of the labour unions on the board of directors that they might be able to have a better understanding of the position that the complex is in and perhaps be able to bring the wage factor a little more into line, a little more into balance?

MR. M. HARVEY: Yes, I would think that however much you can increase the level of understanding of the corporate balance sheet among the employees and give them the opportunity to see what the options are, you have a better chance of making them understand and building up trust, I suppose, between people who need to manage a complex and those who work in it.

Anything that will increase communication in that area would be a plus. That, I suppose, is the major benefit of that.

MR. B. RANSOM: When will the complex be into negotiations with the two unions?

MR. M. HARVEY: The contract with the IWA, I think, expires at the end of August this year and the contract with the Canadian Paperworkers' Union expires at the end of November this year, so we will be into negotiations fairly soon.

MR. B. RANSOM: Mr. Chairman, I'd like to go through the financial statements myself and ask a few questions

to provide some updating for myself and to make certain that I understand them correctly.

On Statement 1, for instance, the assets of the company are shown as \$97,247,000.00. I had trouble just arriving at that figure. I assumed that it should be a combination of the Current and the Fixed Assets. What other figure then is added in to give the total of the Assets?

MR. M. HARVEY: You're looking at 1982, 97,247 as the total of the assets and that is inclusive of the Current. The Fixed, which is outlined at \$60,000 and I assume the addition is made up of that plus the Start-up and Development Costs. The 365 plus the 60,728 plus the 5,098.

MR. B. RANSOM: So the deferred start-up cost there then, the Start-up development cost, the amount that's still outstanding is shown as an asset, the 31, the 365, the 60 and the 5 should give the 97.

MR. M. HARVEY: That's correct, yes.

MR. B. RANSOM: On the liabilities side, you have the Current liabilities of \$10 million and some, the long-term liabilities of 124, so simply looking at the Current liabilities and the long-term debt, coming to 124, compared to the assets of 97, my interpretation on that of course then would be that those liabilities alone exceed the assets by \$27 million or thereabouts, then is it correct understanding that also the government has \$80,032,000 in equity and preferred shares and that, in addition to that, there was the Capital deficit of \$51 million which represented the difference between the total money that the government had ploughed into the operation and what was there by way of assets at the time that the receiver took over.

MR. M. HARVEY: Yes, as I understand the situation, the reason that the debt appears so high in the current and long-term debt portion is that a good part of the early capitalization was financed through debt debenture which isn't a normal situation in a commercial enterprise.

Secondly, the Capital deficit, I understand it to be the difference between the value placed on the asset at the time that Manfor took it off the Receiver's hands, as compared to the total amount spent on developing the asset at The Pas.

MR. B. RANSOM: What we really have here then is the government has invested \$124 million in long-term debt; they've got another \$80 million in equity and preferred shares, \$204 million; plus there was another \$51 million that was down the hole over and above the value of the assets at the time. We're really talking about the government money in here of roughly a quarter of a billion dollars.

MR. M. HARVEY: If it can be understood that is not all cash owing, actual cash items, yes.

MR. B. RANSOM: Even, given that the long-term debt of 124, plus the short-term liabilities of 10, versus the 97 million of assets, how accurate is that 97 million of

assets? Could you sell this company for a dollar even on today's market?

MR. M. HARVEY: Well you've qualified the question with today's markets. A pulp mill is not the most appropriate investment around at the time. I don't know how it would stack up in market value. I assume that it's an accurate reflection of the asset as it was taken over by the company and the value that was placed on it at that time. Mr. Demare, who was around at the time of that capitalization, may be able to supplement that.

MR. P. DEMARE: I think it is an accurate reflection of what the replacement cost of the asset there was. It was an actual inventory taken of the assets and the actual costs of those assets, and then the total came up to these figures.

MR. B. RANSOM: All right then today it shows fixed assets at \$60 million. How accurate is that in terms of what it's worth? Is really worth \$60 million? Is it worth a lot more than that? If you were trying to sell it, would this indicate that there's no value in here, especially if one had to assume even a \$124 million of long-term debt?

MR. M. HARVEY: I think in establishing the value of any company you'd probably have three sets of figures. This one, which is normally called book value, the value of what it would cost someone else to build the same thing, at this time, which is going to be a different figure, replacement value; and then there is the third one which is market value. It's certainly worth the replacement value because it looks, over the nine years, that had the proper investments been made and the proper capitalization taken place that this company would have been reasonable viable, given the downturn in the industry that affects all of it.

I assume the company value is somewhere between replacement value and the fact that it's an operating concern coming into a rising market, but what that figure is, I don't know?

MR. B. RANSOM: Are you saying that it would be somewhere above \$60 million?

MR. M. HARVEY: If, as I have been told, \$60 million is a depreciated figure of what it was valued at at receivership, yes.

MR. B. RANSOM: Presumably nobody would build that kind of a plant today because we're talking about upgrading?

MR. M. HARVEY: Yes. They would not build the same plant, but there is some things there that they would have to build in order to start. They would not maybe use the same technology; not maybe the same kind of equipment, but there would be certain steps that have already been taken that they would have to take. So they would probably buy it on the basis of all of those considerations I would think.

MR. B. RANSOM: Statement 3, the operating deficit of \$55,647,000. Is that a cumulative amount then?

MR. M. HARVEY: Cumulated over the years. I don't read it, so I read it for the year ending. It is a cumulative amount, sorry; it's a balance at the beginning of the year plus the loss for the year and then carried forward, yes.

MR. B. RANSOM: So that's accumulative off an operating deficit of \$55 million and some?

MR. M. HARVEY: That's correct, yes.

MR. B. RANSOM: Then on Statement 5, Income debentures of \$1,700,000, I assume that's a new further income debenture then that the province provided during 1982?

MR. M. HARVEY: Mr. Demare.

MR. P. DEMARE: I'm just looking for the figure you just mentioned. That \$1,700,000 was the accrued interest on the current account as at March 30, 1982. We paid that by way of an Income debenture.

MR. B. RANSOM: That shows up as an interest cost and then it's simply paid, did you say, by way of this Income debenture then?

MR. P. DEMARE: You are correct.

MR. B. RANSOM: On the notes, the Significant Accounting Policies, No. 3 Long Term Receivable, a transaction involving Moose Lake loggers. Is that a normal type of commercial transaction, or is there any subsidy involved there to Moose Lake from Manfor?

MR. M. HARVEY: As I understand it, it's merely the sale of a camp that was surplus to our operations and required by them and sold at the market value. There's no subsidy involved.

MR. B. RANSOM: On Note 7 on the Long Term Debt, the mortgages payable on rental properties, to whom are those payable?

MR. M. HARVEY: Mr. Demare tells me that they're payable to a variety of financial institutions, banks and so on, whoever owns the mortgage on the houses.

MR. B. RANSOM: On the Long Term Debt, the Province of Manitoba, the 7 percent first mortgage debenture,

that interest is required to be paid; is that the one where the \$1,700,000 was charged against?

MR. P. DEMARE: That is correct.

MR. B. RANSOM: And the rest of them then non-cumulative, there's no interest charged against those unless the company gets into a profit position.

MR. P. DEMARE: That is correct.

MR. B. RANSOM: Just one other question then, Mr. Chairman. Can Mr. Harvey or Mr. Demare give us a rough indication of the total amount of wages and salaries that are paid out by Manfor?

MR. M. HARVEY: Manfor's direct payroll, including benefits, - this is in the current year, the year reporting here - is \$23,876,000; \$24,661,000 in 1981. In addition, the contractors that produce wood generate a further \$4 million in 1982. So it's looking like about \$28 million.

MR. W. MCKENZIE: I just wanted a figure on the payroll tax.

MR. CHAIRMAN: Mr. Harvey can provide the answer to that.

MR. M. HARVEY: In a normal year it looks like we would pay - that's a full year - \$420,000 on the payroll tax. That's the only tax that's included in that item that you're talking to. The Salaries and Wages item takes care of UIC and those other ones. But the year under review it wouldn't be that much because I believe that payroll tax came in in July, so we're probably looking at \$100,000 of that figure.

MR. B. RANSOM: I have a few other questions that I can ask to the Minister, I suppose, when we get to his Estimates dealing with the replacement of Mr. Hallgrimson and the present directors.

HON. W. PARASIUK: I'll take those as notice. Can we move committee pass the report?

MR. CHAIRMAN: Does the committee agree to the passage of the report? (Agreed)

HON. W. PARASIUK: I move committee rise.

MR. CHAIRMAN: Committee rise.