

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES
AND NATURAL RESOURCES
Thursday, 21 May, 1987

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. C. Birt (Fort Garry)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Mr. Doer, Hon. Mrs. Smith (Osborne)

Messrs. Ashton, Birt, Dolin, Enns, Filmon,
Maloway, Orchard, Scott, Smith (Ellice)

APPEARING: Mr. Edward J. Robertson, Acting
President

Mr. Charles E. Curtis, Acting Chief Executive
Officer

Mrs. S. Carstairs, Member for River Heights

MATTERS UNDER DISCUSSION:

Annual Report of the Manitoba Telephone
System

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MR. CHAIRMAN: Committee, come to order. We are considering the Annual Report of the Manitoba Telephone System.

The Honourable Minister.

HON. G. DOER: Thank you very much, Mr. Chairperson, and members of the committee.

I'd like to make some introductions but, first of all, with the indulgence of the committee, I would like to have three brief statements before the committee this morning, one from myself, one from Mr. Robertson, and one from Mr. Curtis, about five minutes in duration, if that's acceptable.

MR. CHAIRMAN: Yes.

HON. G. DOER: In terms of introductions, I think the committee is aware of the people here but, for the record, I'd like to introduce Ed Robertson who of course has been the Acting President and CEO of the Telephone System; Jean Edmonds, who is the Chair of the Manitoba Telephone System; Charlie Curtis, who has been the Acting CEO of MTX; Dennis Wardrop, who is Executive Vice-President of the Telephone System; Ken Beatty, who is General Counsel to the Telephone System; and Bill Fraser, who is the Vice-President of Finance.

I would like to make a few observations, in my short tenure with the Manitoba Telephone System. I believe, members of the committee, that there are a number

of strengths in the Telephone System, a number of priorities in terms of issues that we must improve, and a number of challenges in the future.

In terms of the strengths that I've observed in my four to five months with the MTS system, I feel there's a lot of dedicated, excellent and skilled staff that I have met over that period of time, working in 82 communities throughout this province.

The Telephone System, of course, provides a valuable telecommunications infrastructure and a valuable economic source to our province.

We have improved the Capital spending over the last few years, but certainly a lot remains in terms of maintaining our technology and enhancing the weak parts of our telecommunication capacity.

Our rates are, by two independent sources, the lowest in Canada, and many issues of a financially significant nature in the Telephone System are handled, in my opinion, in a very, very competent way. We have recently evaluated the major portfolio of depreciation, which is over a \$100 million financial spending consideration in the Telephone System budget, and received a fairly positive report on the way in which that is handled within the Telephone System.

There are a number of areas that we feel are a priority to improve, that are weaknesses and must be addressed. I have discussed this with Ed at length, and with Jean Edmonds at length, and I'd like to go through some of those issues this morning.

Certainly the budgeting procedures within MTS require improvement, both the internal and external methods by which we budget an account. I'm very confident that Mr. Fraser, who has been hired as Vice-President of Finance, has got many of those challenges under hand, and will be dealing with many of the issues in the short term and in the longer term in terms of our budgeting priorities.

The financial stability of the organization, it is a very stable financial organization in terms of the economy, but we do have challenges in terms of our financial stability. One is the debt ratio, which certainly all members of this committee recognize is too high. Secondly, the capital requirements of the corporation, particularly to maintain the technological capacity of the corporation and to fulfill priorities, I feel, are the future, such as rural improvements will be stretched, in terms of our financial stability. The competitive forces potentially in the telecommunications industry will place pressures to erode some of the revenue bases within the corporation.

Obviously another area that we must work on is the corporate planning within the Telephone System. MTX is obviously a lesson from the past and must provide us, I believe, with guidelines for the future.

Also, we are reviewing a number of projects on an internal and external basis, two of which are FAST and FRED. I believe that those analyses will not only be

important for us in terms of what our capacity is to evaluate projects and make strategic decisions, but also will provide us with specific information on the projects that have been an issue of concern to members of this committee over a period of time.

Another issue of planning obviously is the fact that we didn't have enough apprentices in the mid-Eighties, and had to bring in a surplus of employees from other telephone systems to provide some of the craft trades that has again been made public.

An area again of priority for improvement is the personnel area. We have initiated an internal review of personnel in the corporation; we haven't completed all of the details of that yet. The whole area of hiring, staffing levels, where the staffing is going to be deployed, retraining of people that are in a technological area whose skills are becoming redundant or limited onto other areas in the corporation is a major concern in terms of the future challenges to the corporation.

Labour-management relations, in my opinion, have a lot of improvements to make and we have discussed that internally. Obviously, the whole shock situation, that the president and CEO, Mr. Robertson, said, "If there's one shock, it's one too many." We must find a solution to that intolerable situation in the corporation.

The morale in the corporation, after MTX and with many of the uncertainties, is low and we must work to make the situation much more certain and again build on the many strengths in the corporation, which many employees believe is vital to the corporation. I'm sure there will be other areas that will be identified in the debate.

In terms of some of the other challenges, members of the committee will recall, of course, the MTX issue and the decision to have an orderly wind-down. I am pleased that we have two signed agreements that Mr. Curtis has negotiated with the aid of MTS people and Coopers and Lybrand.

Mr. Curtis, in my opinion, has provided an excellent service to the public of Manitoba and the Telephone System, and has two signed agreements with a number of conditions that are consistent with the orderly wind-down of the corporation; consistent with maintaining our costs within the \$27.4 million that was publicly released in February of this year; consistent with maintaining our long-term liability considerations; and consistent with employee redeployment.

The settlements are with the Saudi Arabian operations and with Cezar. We are not complete in terms of the major projects. SPRINT is still to come and is still in very, very sensitive negotiations. I'm hopeful that the conclusion with Mr. Curtis, Coopers and Lybrand, and Mr. Robertson will be successful and it will be consistent with the prudent and orderly wind-down of MTX.

A second major challenge that is obvious to all members of this committee is the rural services issue. The public, the interventions that the Public Utilities Board, MLA's in this Legislature from all parties have identified the need for improved and enhanced rural services. We get a lot of conflicting advice in this area, but consistent advice in terms of improving the rural services. Certainly, there are many groups that I have met with that are advocating for extended areas within the province, and quite a vocal group outside of some of our urban centres are asking for extensions of those lines, as well.

We have a number of other people who are concerned, legitimately, about the multiparty lines and want to have a single-party line system within this province. We've also heard legitimate concerns about the quality of the existing technology in rural Manitoba, some information in terms of the City of Winnipeg, as well, but particularly in rural Manitoba in terms of the quality of the existing services and technology in those areas.

We plan a massive survey in this province to be used as the first stage of consultation with the municipalities and with the public, and we intend on developing a plan this fall and filing it before the PUB. It's our time line to get this whole plan - and I would see the plan being for a long-term capital of spending basis - in this '87 year.

Competition also presents challenges to the Telephone System. Technology now is available to bypass the System. Technology is available to compete with the System. The old rules of the monopoly are over, in a lot of areas, and that presents challenges in terms of revenues, and that presents challenges in terms of strategic planning in the corporation.

Specific questions have been raised in terms of cellular telephones. It's certainly our intent to be on a fast track with a sound business plan to provide that service to the public of Manitoba, in a manner similar to what has happened in Alberta where both CanTel, or the private company and the public company start on an equal footing, in terms of time.

We also believe that would cause some concerns in terms of some of the legitimate private radio appeals to connect to the system. Why should Manitoba-based technology be denied access to the system when Cantel, a Toronto-based company, is provided access to it under DOC provisions?

So we believe that we should have a consistent policy in terms of Interconnect. But part of that consistent policy, members of the committee, is that people pay a fair access price to use the public telephone system. We will be arguing that strongly at the Public Utilities Board for the ability of groups to interconnect.

A last area of challenge for the Telephone System is the whole area of federal-provincial negotiations. There is a variety of priorities between provinces and the Federal Government in terms of federal-provincial negotiations. We have, in terms of the telecommunications issues, a meeting scheduled for early September to follow up a meeting which took place in April of this year.

The three major areas that are in negotiations between the Federal Government and the Provincial Governments are: jurisdiction, the interconnect issue for a national policy on Interconnect, and the whole area of long-distance competition. It's certainly our position or preference in terms of jurisdiction that, notwithstanding the Alberta court case with the CN-CP challenge that is possibly before the Supreme Court this fall, the jurisdiction that is now held by the Federal Government be continued by the Federal Government and the jurisdiction that is held by the provinces be maintained by the provinces.

We certainly had some agreement to that effect at the meeting in Alberta, but there is still considerable more work to do. I believe that if any court case takes place it would require constitutional amendment to look

at any of these policies if it's going to go contrary to the court case. But certainly there is a sentiment, in terms of the jurisdictions between the Federal and Provincial Governments, which causes problems in places, such as Quebec, Ontario, and British Columbia, because they have been regulated by the federal CRTC.

Interconnect is another issue on the table between the provinces. I have asked the Telephone System to produce and develop a long-term Interconnect proposal. It would be my preference that we phase in Interconnect. I do not believe we can stop Interconnect nor should we stop Interconnect in terms of the technology that may be available to local Manitobans, both entrepreneurs and also individuals, who require the technology to perform their business. We are proposing at the meeting in September that we have a phased-in period. That is also a position that many other smaller provinces are taking because they don't want to erode their revenue base radically in the short term.

Another area on the table is the whole area of long-distance competition. Initially, places such as Ontario and, to a lesser degree, Quebec were in favour of long-distance competition. There has been a considerable backlash from small business and consumers in terms of some of the long-distance decisions in Ontario recently. I believe strongly that it is not in the best interests of the prairie Telephone Systems and the public and prairie provinces - Alberta, Saskatchewan, and Manitoba - to have an Americanized long-distance competitive situation in this province. It would erode the revenues to the Telephone System which, in fact, would ultimately force erratically the increase in local rates.

So that is a position we've tried to take at the table, that we don't need an American solution to the federal-provincial negotiations, that a made-in-Canada solution with the interconnected or phased-in basis, and the long-distance competition not taking place in this country.

That of course could be all subject to whatever happens at the trade table, the Canada-U.S. trade table, because obviously services in telecommunications is one of the items in dispute between the two governments. Even though we've all expressed, particularly the prairie provinces have expressed their concern to the Federal Minister of Communications at the last meeting, we do not know what orders or instructions the federal negotiator has in terms of the various pieces of that puzzle, in terms of telecommunications.

So those are my brief comments in terms of the strengths as I see them, the challenges, or the short-term priorities in terms of improvements in the Telephone System, and the longer-term challenges.

I would like to say, before passing on for a short statement by the CEO, that I've found Mr. Robertson to be very, very helpful and Ms. Edmonds to be very helpful to me in my new role in this Telephone System. I really have appreciated their support in getting me up-to-speed in some of the areas and being patient with me when I have not been up-to-speed in others.

MR. CHAIRMAN: Thank you, Mr. Doer.
Mr. Robertson.

MR. E. ROBERTSON: Mr. Chairperson, I would like to review the '85-86 Annual Report and discuss certain information that may be of interest that relates to activities since March 31, 1986. I have made arrangements to have the prepared text, from which I'm speaking, distributed to members for their information.

The financial statistics in the report describe total revenues as in excess of \$366 million, increasing by 7.3 percent over '84-85; total expenses of in excess of \$367 million, increasing by 12.6 percent; a net loss of \$28.148 million, attributable primarily to the effect of foreign exchange currency fluctuations and the orderly wind-down of MTX.

Capital expenditures were \$153.154 million, which represents an increase over the previous year of 35.8 percent.

At March 31, 1986, there were 502,286 main sets in service, an increase of 14,846 over '84-85.

MTS' investment in telecommunications plant grew to \$1,257,934,000.00.

Investment per main telephone set stood at \$2,503.00.

The annual report describes a number of activities - you have the annual report in front of you - over the following year. I would highlight some of these, namely:

A 3 percent growth in main sets, to 502,286;

The continuation of the System's program to bury cable, with more than 90 percent now underground;

The extension of what we refer to as the Customer Line and Service System, the acronym being CLASS, to speed and improve customer billing queries. That is a very significant piece of internal business within the province and has advanced very well during the early part of this year.

The expansion of Automatic Number Identification to an additional 14 communities;
The implementation of Spacelink Satellite Service at a cost of \$3.5 million to five Northern communities;

The expansion of Extended Area Service to an additional five pairs of communities;

A record number of new business installations;

The introduction of two new mobile services;

The conversion of switching equipment to digital technology in three Winnipeg exchanges and three rural communities;

The expansion of fibre-optic installations, including a \$13 million, 330-kilometre link between Winnipeg and Brandon;

The installation of local cable distribution systems in an additional six communities;

The signing of a new basic and Pay-TV agreement with the Greater Winnipeg Cablevision Company;

A major organizational restructuring in the system.

A significant development since March 31, 1986, has been the System's application to the Public Utilities Board for rate increases. In presenting that application to the board, I provided the following information that not only provides an explanation for the application, but also described the System's financial picture as of that time and, with your permission, Mr. Chairman, I'll simply use the words I used in front of the PUB. I went on to say that:

"When MTS came before the Public Utilities Board in February, 1986, it projected a deficit of \$500,000 for the fiscal year '86-87, which is the year in question in this hearing, on the basis of having received approval of rate increases. MTS now projects a deficit of \$19.1 million for the 86-87 fiscal year on total revenues of \$396 million and operating expenses of \$321.4 million.

"There are several reasons for the substantial difference between the earlier and the present projections.

"Firstly, MTS experienced very strong demands in 1986 for service. These demands themselves, which were an indicator of the health of the provincial economy, were a result of growing development in Manitoba. In responding to them, the System experienced increased operating expenses. Operating expenses that had been projected at \$318.1 million for '86-87 are now expected to be \$321.4 million.

"The second reason is the write-off of losses arising from the wind-down of MTS' wholly owned subsidiary, MTX Telecom Services. The write-off against retained earnings, attributed to the '85-86 MTS financial results, will increase the company's debt base. That increase in the debt base will increase debt charges in the current and future fiscal years. Increased debt charges attributable to the write-off against retained earnings will be approximately \$2 million in '86-87 and approximately \$2.4 million in '87-88.

"A further significant cause for the difference between earlier and current projections for '86-87 is associated with our outstanding borrowings in foreign currencies. I said to the Board that they were well aware that such borrowings create an element of exposure. Recognizing the fact, MTS established a program to amortize its foreign debt issues. Under this program, the company had set aside funds for anticipated losses due to currency fluctuations. That program has helped MTS manage a factor in its debt structure that is largely beyond its own control. Altogether, it has permitted MTS to fund \$17.1 million worth of foreign exchange premiums in the retirement or partial retirement of three debenture series. But this program was designed to offset foreign exchange losses over the remaining life of an issue. It cannot cope with the full weight and impact of rapid and significant currency fluctuations as an issue nears maturity.

In fact - this is, I think, well known - this is precisely what has occurred. MTS retired a loss debt issue in February 1987. This redemption was repaid in Japanese yen, which is a currency that appreciated in value against the Canadian dollar by 29 percent in the first eight months of 1986. The foreign currency cost to retire the 10J issue in Japanese yen was \$30.18 million. Under the amortization program, which I briefly referred to before, \$17.7 million was set aside. However, there was a shortfall of \$12.47 million.

I went on to say to the board, and I quote, Chairman, simply from the board material: "... is to obtain additional revenues needed to deal with an immediate and serious financial situation created by the largely unanticipated circumstances I've just described. It is also made to address additional needs.

"MTS will continue to face strong demands for service in 1987-88 as a consequence of new development in the province and presses for improved services and features. With the expansion of residential housing

developments and also growth in the business sector, we estimate that there will be a buoyant demand for basic service as well as the specialized requirements of the business community. These demands and pressures, coupled with the general rise in inflation of over 4 percent, will result in increased operating and capital costs. The projected '86-87 expansions of \$321.4 million will rise to \$348.1 million in '87-88. The Capital program for '86-87, which stood at \$155 million, will rise to \$165 million in '87-88."

Mr. Chairman, members of the committee will be aware that the board received a number of presentations from interested parties during these public hearings on the application. Many of these presentations addressed the concerns of rural customers. I estimate that the comments made by these interveners will be of considerable assistance to the System during our current review of rural service, which has been referred to by the Minister in his opening remarks.

In addition to the application to the PUB, there have been these notable developments since March, 1986: we have embarked upon a review of a number of key MTS projects and services; we have, as the Minister mentioned, charted a review of MTS depreciation practices; we have embarked upon a review of human resources management. There has been, in factual terms, an increase in the number of main sets and service by 2 percent to 512,984. Fifteen rural exchanges serving 25,500 customers have cut over to digital switching; 82,169 Winnipeg lines have cut over also to digital technology; 14 additional exchanges were provided with automatic number identification, bringing the total number of exchanges with this service to 129; and finally, nine additional extended area service cross-sections were added, serving a further 26,000 customers in 18 exchanges.

As a final word, Mr. Chairman, I should note that I came to MTS under rather unusual and difficult circumstances. There is no question in my mind that it was facing unprecedented circumstances and problems. As the Minister has noted, we've been working pretty hard to examine these problems and to effect appropriate changes. I must underscore his remarks with my own remarks, drawn upon what, I guess, is my on-site experience and observation over the last six months.

Although I agree that there is, to be sure, room for improvement, I do want to put on record for this committee that I was heartened, encouraged, and, above all, impressed by the positive forces at work in MTS.

Through the system, I have the view that Manitobans enjoy a high quality service and a skilled workforce committed to the extension and refinement of that service. After spending many hours working with these dedicated people in the system, I have concluded there is very good reason to be confident about their capacity to meet the demands of the present and, in consequence, the corporation's ability to meet the needs of the future.

Thank you, Mr. Chairman.

MR. CHAIRMAN: Thank you, Mr. Robertson.

Mr. Curtis, I believe you want to make a few comments.

MR. C. CURTIS: Mr. Chairman, I would like to provide a report on the activities of MTX since the last committee meeting.

As members are aware and as the Minister has mentioned, the MTS board had instructed that MTX be wound down. There were three major areas that have taken up most of the time in winding down the affairs of MTX.

MTX engaged Coopers and Lybrand to assist in this wind-down. Separate teams were involved in each of the three major areas. As well, independent legal counsel provided legal advice with respect to the withdrawals.

The first major area is SADL, Saudi Arabian Datacom Limited.

A detailed strategy was developed with the assistance of Coopers and Lybrand for the withdrawal of MTX' Saudi investments. Acting on their recommendations and under the direction of the MTX board, I negotiated the sale of our holdings in Saudi Arabia to our partners. This sale was predicated on the detailed personal review of the existing assets and liabilities and the potential losses that could be anticipated in a liquidation scenario. This review was supported by the Coopers and Lybrand office in Saudi Arabia, and conducted with the assistance of legal advice in Riyadh.

Mr. Chairman, it would be helpful to the committee if I were to table the Coopers and Lybrand report related to the withdrawal from our Saudi investments. For the information of the committee, I would like to summarize the terms and conditions of the sale agreement.

The major terms of the Saudi agreement are: MTX to sell all of its shares in SADL to ABI in return for consideration of Saudi riyals, 3.5 million. MTX received 1 million Saudi riyals upon execution of the agreement and will receive 2.5 million Saudi riyals via a series of six promissory notes due from September, '87 to March of '89.

ABI has indemnified MTX from all claims, costs, and liabilities originating within Saudi Arabia, with MTX granting a similar indemnity to ABI against all Canadian claims.

ABI agreed to indemnify MTX against all claims arising as a result of a guarantee dated June 6, 1986 given by MTX to Epson - U.K. in the amount of 275,000 pounds for purchases of equipment by SADL from Epson.

MTX will pay 50 percent of any Saudi corporate taxes due for the periods ending December 31, 1986. We have been advised by Coopers and Lybrand's affiliate in Saudi that these taxes, if any, would be minimal due to the poor financial performance of SADL.

It was agreed that MTX staff employed by SADL would be allowed to complete their contracts, with ABI incurring the salary costs.

MTS has agreed to not unreasonably withhold technical support for contracts and agreements to which Datacom or SADL is currently a party or for which tenders were outstanding at the date of execution of this agreement.

I believe this agreement accomplishes the objectives for withdrawal in an orderly fashion with a maximum return under the circumstances of withdrawal.

As well, it protects the position of MTS and MTX employees in Saudi Arabia and significantly reduces the exposure to MTX for future liabilities arising from

its involvement in Datacom. This agreement concluded many weeks of discussions and difficult negotiations with our former partners.

In their review of the agreement, Coopers and Lybrand concluded, and I quote: "We do not believe that further negotiations could result in a greater return or better conditions for sale to ABI."

There are of course a few minor items remaining to be resolved. These largely focus around Saudi employee contract issues. With the assistance of Coopers and Lybrand and our legal counsel, we currently are working to resolve these issues.

The second major activity for which we have negotiated a withdrawal is CIL/INET and the related Cezar product line. As you know, MTX had a 20 percent shareholding in the company CIL/INET, as well as the licence to the ACT Technology. A team comprised of representatives from Coopers and Lybrand and Aikins MacAulay, along with an MTX employee familiar with the technology, and myself, negotiated a settlement agreement with Cezar Industries representatives to withdraw from these areas of business. As well, legal counsel was obtained from a California law firm regarding the applicability of California law.

Mr. Chairman, I would like to submit the Coopers and Lybrand Report that outlines and supports the final settlement terms. The following is a brief outline of the major conditions of the signed agreement:

CIL has agreed to reduce the royalty fees of \$300,000 (U.S.) that were due under a previous agreement to \$98,000 U.S.

MTX has agreed to sell its shares in CIL/INET to Cezar Industries for a nominal amount of \$10 U.S.

MTX will return nine units of ACT Technology hardware to CIL/INET having a cost of \$67,000 U.S.

MTX will receive an 8 percent royalty on all future ACT sales.

MTX will continue to provide a limited level of support. The support consists of operating the Line 1 system in Winnipeg for 6 months and continuing to seek Federal Government approvals for a further 60 days and at a cost not to exceed \$12,000.00.

The major feature of the agreement, from our point of view, is the mutual waivers granted by both parties to any rights to future litigation. I believe that concluding this agreement in a timely manner effectively relieves MTX from what might have been significant risk exposure.

The third item, U.S. SPRINT: With respect to the major area of activity, negotiations are underway with U.S. Sprint and our sub-contractors to finalize the withdrawal terms. As the Minister mentioned, due to the sensitive nature of these negotiations, it would be preferable not to discuss details at this time. The members of the negotiating team, consisting of senior personnel of MTS, Coopers and Lybrand and myself, will be reporting to the MTX Board as the negotiations proceed.

Since the Public Utilities committee hearings in November '86, an orderly wind-down has occurred. Employment levels have dropped from 39, including 9 employees in Saudi Arabia in November 1986, down to a reduced current level of 8, 3 of whom are still in Saudi Arabia. Of those 31 who have left MTX, 24 have been re-employed in MTS.

Other minor activities under way in November of 1986 have been concluded or terminated over the past few months. A brief listing is as follows:

MTX completed a Consultancy Study for the New Zealand Post Office.

MTX had submitted a proposal to the Royal Hong Kong Police Force for a communication system. Given the wind-down scenario, Coopers and Lybrand reviewed our obligations and recommended we withdraw our proposal from consideration.

Coopers and Lybrand reviewed our participation in the Canadian Communications International (CCI) Consortium and, consistent with the direction to wind down operations, recommended that MTX withdraw. MTX had contributed our proportionate share towards the operating budget for the period from April 1 to December 31, 1986. Under the terms of the agreement, we have requested that our portion be refunded.

MTX has terminated an agreement which had given exclusive rights to MTX to market COMDEV products within Canada.

Legal counsel in India has advised that MTX has no obligations with respect to an agreement on file which states that MTX may obtain a 20 percent shareholding in INCA Telecomine Private Ltd., a company incorporated in India.

Our participation in a CIDA-funded project to install a mobile radio system in an open pit mine in India is completed. Westar Engineering of Vancouver was the prime contractor, with MTX providing materials and one employee on a per diem basis.

MTX is a 25 percent shareholder in Grassroots Information Services, Inc. The transfer of shares from MTX to MTS will be based on an independent review of the investment currently being conducted by MTS.

At this time, Mr. Chairman, we have no reason to believe that the projected loss of \$27.4 million in the March 31, 1986, audited financial statements will be exceeded.

Mr. Chairman, the wind-down of MTX has been difficult and time consuming for all involved. It has been especially disruptive for MTX employees, but the patience, understanding and cooperation shown by most has been appreciated. Outside of the U.S. SPRINT-related negotiations, there remain a number of smaller issues to be resolved. We are working towards the resolution of these issues as quickly as possible. However, at this point, we cannot accurately predict the time frame for the finalization of these outstanding items.

Thank you.

MR. CHAIRMAN: Thank you, Mr. Curtis.
Any questions? Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, I presume Mr. Robertson's report is an anticipation that we pass at some point in time the '84-85 report?

MR. CHAIRMAN: It's not necessarily so. I've been advised that there is nothing in the act that says that it has to be approved. All of the legal requirements of filing the report, having it submitted to the committee, have been met with. There is nothing in the act that says that the particular act must be reported to the House. I believe that was communicated to you by a letter of December 4, 1986, by Mr. Remnant. So the committee today is considering the '85-86 annual report.

MR. D. ORCHARD: Mr. Chairman, that absolutely ruins my first question. I was going to ask if Mr. Mackling might be present at the committee to answer some questions as carry-over from the December 1 meeting.

MR. CHAIRMAN: Be carried over past midnight?

MR. D. ORCHARD: Yes. You see the reason I was wanting to pose that question, in reviewing some of the Hansards, I was interested to note, for instance, if we go to pages 282-283 of Hansard, that Mr. Mackling, in response to nine questions, indicated he didn't recall seven times. In the six-month interim period and certainly with your very capable assistance as the Minister now responsible for the Telephone System, I thought it might have been interesting to have Mr. Mackling here to see whether in the six-month period of time he had to review his records, etc., etc., he might find his recollection better and be able to answer those questions. Mr. Chairman, is the Minister indicating that Mr. Mackling would not be available to refresh his memory at this committee?

MR. CHAIRMAN: Mr. Orchard, if I may comment, Mr. Mackling is no longer a member of this committee. Unless he is prepared to come here and answer it on a voluntary basis, he is no longer responsible for the Telephones and this Minister will be, so all of the questions will be directed to this Minister.

Mr. Minister, did you . . .

HON. G. DOER: No, I think the Chairperson has accurately summed it up.

MR. D. ORCHARD: Mr. Chairman, to the Minister, would the Minister have any objections to asking his Cabinet colleague, Mr. Mackling, if he might be available at the next time we meet, to come here. You could have him changed and become a member of the committee, so that he could potentially answer some of those questions that he didn't recall.

I make that request, particularly because Mr. Mackling indicated yesterday that he had a vacation which, on return from vacation, he found he'd made some bad appointments to the Labour Relations Board, and that might have helped him to refresh his memory and be able to answer those questions.

Would the Minister extend that invitation to his Cabinet colleague and give him the ability to be here at the next sitting to answer questions?

HON. G. DOER: Mr. Chairman, I was hoping that we could deal with the challenges of the present and the challenges of the future, rather than deal with the issues of the past. So I would hope that we've got, I think, Mr. Chairman, a lot of work ahead of us. There's many challenges in the telecommunications area that I think require legislative debate, and I hope we can get on with those.

I noticed in past years, when the member was responsible for the Telephone System, I don't believe we requested the previous Minister be available for questions. I am hoping we can deal with the present challenges, because there are lots - rural services, the rate issues, the telecommunications challenges - and not dwell in the past.

MR. D. ORCHARD: Mr. Chairman, I can understand the Minister wishing to deal with the future, but there's an old saying that history repeats itself. Unless we know from Mr. Mackling the kind of errors he made, then you will not be guided by his wisdom and knowledge that he gained from his stewardship of the Telephone System, and in the lessons of the past will be a guideline for the future.

That's why it would be, I think, beneficial to have Mr. Mackling reply to some of those questions, and you're quite right. I don't even believe there was a request for previous Ministers to attend the committee hearings that I sat in your chair on, because I don't believe any Minister in our administration was responsible for a \$27 million loss in the Telephone company. So the request is probably a first-time request, but it would be to the benefit of yourself, as now Minister responsible, indeed to your government, to your portfolio in Crown Investments, to have the lessons Mr. Mackling learned completely and fully at your disposal.

HON. G. DOER: I'm not so sure it's at my disposal that you would like Mr. Mackling, or at your disposal, but I think that we would like to deal with, as I say, the challenges of the present and the challenges of the future.

MR. D. ORCHARD: So then I take it, Mr. Minister, that you would not be inviting your Cabinet colleague, Mr. Mackling, to be at the next meeting to answer questions.

HON. G. DOER: I believe in the fundamental principle that the Minister responsible is the one who is accountable to the committee of this Legislature. I believe fundamentally in the principle that the Minister assigned by the Premier, and sworn in as such, is the individual who's accountable to this committee and I believe in that principle strongly, and I do not want to do anything to erode that principle.

MR. D. ORCHARD: I'm glad you have those esteemed principles of ministerial responsibility. They were entirely lacking with your predecessor.

Mr. Chairman, can I ask the Minister: What is the status of the RCMP report into the allegations of criminal wrongdoing in Saudi Arabia?

HON. G. DOER: The latest report I had, and Mr. Curtis can perhaps provide an update to that, is that it is not complete. Every effort we've had to facilitate the final stage of their investigation has not been completed. The latest word I had is they were either looking at interviewing the last remaining people that they felt necessary for their investigation in London, or they were going directly into Saudi Arabia.

We've said before that the investigation will be completed, and the completion of the investigation is just around the corner; I hasten to make any other prediction, insofar as we don't have any control of that situation. But as I understand it, they're within weeks of either going to London to meet the outstanding people or go directly to Saudi Arabia. Perhaps Mr. Curtis - I haven't talked to him in the last four days about that issue.

MR. C. CURTIS: Mr. Chairman, I have spoken to the RCMP, and, of course, their investigation is their investigation and it's a private one, but they have advised that, if all goes well, they would look to see the investigation being closed by perhaps the middle of June. They have a fairly limited number of people they wish to speak with as yet, and they haven't had a chance to.

MR. D. ORCHARD: Mr. Chairman, have the RCMP been in Saudi Arabia already?

MR. C. CURTIS: No, they haven't.

MR. D. ORCHARD: The RCMP are carrying out an investigation into alleged wrongdoings in Saudi Arabia and have not been physically present in Saudi Arabia to date?

MR. C. CURTIS: Not at the present time.

MR. D. ORCHARD: Have they availed themselves of the services of Interpol or any other police organization to make investigation on their behalf in Saudi Arabia?

MR. C. CURTIS: This is not an area that I'm familiar with, as far as the detail is concerned. I haven't attempted to find that information out from them directly. I would prefer not to interfere with the manner in which they've conducted their investigation.

MR. D. ORCHARD: Mr. Chairman, I suppose we will wait with patience until June for the RCMP report, but can the Minister indicate whether there is a restriction whereby RCMP investigators were not allowed into Saudi Arabia?

HON. G. DOER: I have been advised that there has been no direct restriction of them going to Saudi Arabia. It was their preference to meet some of the individuals in a place intermediate to that, I guess, for their own reasons. Again, the Government of the Day can merely inquire into the progress and make available any kinds of openings to ensure that their investigation can be completed.

I know that Mr. Curtis and I have talked, almost on a weekly basis, of the status of that situation, and we have also discussed, at length, any way in which we could aid them to complete the investigation was the government direction through to MTX, because obviously the longer it takes - I believe in swift investigation so it clears the air one way or the other. We have said to them whatever we have to do, whether it's to move people to places intermediate, or whether it's to move you to places intermediate, or whether it's to facilitate going to Saudi Arabia. They have never been told that they can't go into Saudi Arabia, as I understand it.

MR. C. CURTIS: That's correct.

MR. D. ORCHARD: Mr. Chairman, then possibly Mr. Curtis can answer this question. Given that we found out that SADL, as our 50-50 business venture in Saudi Arabia, and Datacom, the 100 percent division owned

by the sheik, were operated as one and the same - and I recall from Coopers and Lybrand reports that access to the Datacom books, i.e., the sheik's company books, were restricted to Coopers and Lybrand - can Mr. Curtis indicate whether the RCMP have had access to those books during the course of their investigation in terms of allegations of kickback?

MR. C. CURTIS: Well, of course, they have not been in Saudi Arabia and, as a result, have not had the opportunity to look at the records. Whether or not that's one of their goals, I can't answer because, as I've mentioned, we've tried not to interfere with the manner in which they carry out their investigation, but have attempted to give them every cooperation that they've asked for and we have, in fact, volunteered what information we could that they were looking for.

MR. D. ORCHARD: Mr. Chairman, Mr. Curtis' volunteering of help from the Canadian side is admirable. However to complete, as the Premier indicated, a full, swift, and complete investigation by the RCMP, I think that same cooperation would be hoped for on the other side. To date, we have (a) neither the RCMP being in Saudi Arabia, nor do we know - well, I think from Mr. Curtis' answer, I think we know that access to the Datacom books in Saudi Arabia, the sheik's books, in which we were highly involved as MTX, certainly has not been assured at this time.

My question to the Minister is: Is he satisfied that, with this status report to date and completion by about June 15, that the full, swift, and complete investigation, as promised by the Premier, has indeed been undertaken?

HON. G. DOER: In terms of the overall issue, and I'll let Mr. Curtis answer some of the specifics arising out of your question, I believe we moved very quickly. The Coopers and Lybrand report was within the period of time that was within our control and articulated in the Legislature and, as you have called it, a very thorough, complete investigation of MTX was made public, made public even though it obviously made negotiations much more difficult in our "wind-down period."

We asked the RCMP in within minutes of the affidavit being tabled at this Legislative Committee. Just as the Prime Minister will not have control of the Andre Bissonnette affair in Quebec, we do not have the kind of control with the RCMP, nor should we, as an independent police force.

We obviously want it completed; we want MTX wound down, finished, and the RCMP investigation complete. It's in the public interest to do so. It hasn't been completed yet and that's the reality of the situation we're in.

In terms of some of the specifics, I'll turn that over to Mr. Curtis.

MR. C. CURTIS: Mr. Chairman, the only point that I think would be helpful is that my understanding of the major interests of the RCMP at this time - and I don't like to speak on their behalf - but it's to meet with individuals and have the opportunity to question them.

One of the major problems is the fact that these are not Canadians and they're not Saudis, and the

jurisdiction is a little bit perhaps difficult for them. I'm not saying that it is; I'm just mentioning that this could be a problem for them.

MR. D. ORCHARD: At any time since we last met, December 1, has Coopers and Lybrand had access to Datacom books, the sheik's company books?

MR. C. CURTIS: Both Coopers and Lybrand in Riyadh and myself had access to the books.

MR. D. ORCHARD: To the SADL books, as the joint venture, and to the Datacom division of ABI?

MR. C. CURTIS: Yes, that's correct.

MR. D. ORCHARD: Would you presume from your having access to those books that, should the request be made, the RCMP likewise would have access to those books?

MR. C. CURTIS: Mr. Chairman, I have no reason to presume otherwise.

MR. D. ORCHARD: Were the books, Mr. Curtis, in your opinion as a professional accountant, and Datacom books specifically, in complete and good accounting order?

MR. C. CURTIS: I guess my view is that they were in good condition, adequate. Unfortunately, they were, to a fair extent, behind in their accounting. This was due to largely the shortage of staff and the fact that new staff had been trained over a period of time. So we were running a number of months behind.

MR. D. ORCHARD: Mr. Chairman, then I take from that answer that, in the Plunkett Report of December 31, 1984, Mr. Plunkett indicated that unfortunately, because of a lack of expertise in the financial area in Saudi, the record-keeping has not been kept on the basis of the strict legal entities, company transactions. In this, he means transactions between our joint venture, SADL, and Datacom Division of the sheik's company. Company transactions have been mixed between the two companies, and it is not possible at this late date to go back and separate the two.

Are you indicating, Mr. Curtis, that in fact was not a correct statement made by Mr. Plunkett in December, '84, and that you did and were able to go back and separate those accounts, because that is the prime period, my understanding is, that the allegations of kickbacks and other financial difficulties were pertaining to?

MR. C. CURTIS: No, Mr. Chairman, what I was referring to was the condition of the books at the current date. What I was looking for primarily was an indication of the assets on hand, the condition of the accounts receivable, the inventory. I was looking only at the current status of the company.

You have to keep in mind that our concern was to establish a valuation of the assets and liabilities as at the most current date possible.

MR. D. ORCHARD: Mr. Curtis, is it fair then to ask you the question as to whether you attempted to

determine the soundness of the accounting, the books, from the time that SADL was incorporated in Saudi Arabia to present, including - because the two entities were considered as one, naturally then the books of Datacom would be important. Were those accessible to you, and were they in the kind of disarray as indicated by Mr. Plunkett in December of '84?

MR. C. CURTIS: Mr. Chairman, that wasn't the thrust of my review. My review was a more limited, more current snapshot of the condition of the assets, liabilities, and the business itself, current operating results. The limited time that I had available was centred on those particular concerns.

MR. D. ORCHARD: Mr. Chairman, then to Mr. Curtis, did Coopers and Lybrand, in presumably taking an extended period of time, did they make any determination as to whether the financial records since inception in Saudi Arabia would indicate where the monies went that we are exposed and have now lost? Did they take the time to make more than a point-in-time snapshot of Datacom?

MR. C. CURTIS: Mr. Chairman, the C. and L. office in Saudi, working with myself, were looking only at the current picture. We did not spend any degree of time in looking at what had transpired back in those earlier years.

MR. D. ORCHARD: Well, Mr. Chairman, I find this interesting and I shouldn't, possibly until I read the Coopers and Lybrand report, make a comment. But according to the newspaper today, we're prepared to write off some \$20 million dollars in Saudi Arabia by taking a snapshot of what the books of SADL, our joint venture, and the books of Datacom, the division that we operated jointly - we're taking a snapshot view of those books, presumably as of late 1986. On the basis of that snapshot, we're prepared to write off \$20 million. And I take from the newspaper article, we're gleeful that the Saudi Arabian sheik who took the \$20 million may not be able to sue us. And you're sitting here today telling us that you haven't investigated the books from inception to see whether we can sue him?

I guess, maybe, I'm not as gleeful as MTS executives are in the sheik not suing us. We've just been on the hook for \$20 million dollars for a business venture in Saudi Arabia.

Mr. Curtis, with all due respect to you and your experience, I can't accept that we would not take a look at how we were exposed to this \$20 million and whether we can proceed with recovery action from the sheik.

MR. C. CURTIS: Mr. Chairman, we went into that aspect of it with our advisors - that's Coopers and Lybrand in Saudi and with our legal counsel, also in Saudi - and their view was that our position on a suit was weak. Their recommendations, their conclusions were that we should either liquidate the company and take whatever resulted from the liquidation or, in some fashion, sell the business either to an outsider or to our partners. And that is the way the end result came about.

I think that C. and L. in Saudi were convinced that there were no other resources that could be tapped in our settling the transaction.

MR. D. ORCHARD: Mr. Chairman, I appreciate Mr. Curtis' answer, but once again, if I follow from your answers this morning, you did not take a five-year look at the books. Presumably Coopers and Lybrand did not take a five-year look at the books. How could they then come to the conclusion that our best position was to cut and run if they didn't know what was in the books to determine whether, in fact, we had some legitimate grounds to pursue legal action? How could they come to that conclusion without a study of, presumably, the 4.5 years of business operations and the financial records presumably, that existed on those financial records?

MR. C. CURTIS: Mr. Chairman, financial statements had been prepared by the auditor of SADL. They had had a chance to look at that prior to my arriving, and had come independently to the conclusion that the assets were as we saw them in the final analysis. Their view, also, was the fact that we, the MTX side of the operation, had run the business and had control of the activities, the operations all the way through the piece and that there was nothing in their view that had been diverted away from the operation by our partners. Our partners were not actively involved in the direct operations of SADL - that's the combined operation.

MR. D. ORCHARD: Well, correct me if I'm wrong. This was one of the areas of information that I was to request later on, and I will if I still have time this morning. But correct me if I'm wrong. Were not a substantial portion of our losses in Saudi Arabia due to accounts receivable from sales made to, (a) the joint venture - not exclusively, but primarily - to Datacom or Telecom as divisions of Al Bassam International, the company we were dealing with?

MR. C. CURTIS: Yes, that's quite correct, Mr. Chairman.

MR. D. ORCHARD: Then how do we end up in a circumstance where an independent company, presumably, Datacom division of ABI or Telecom division of ABI, owes us accounts receivable monies? How do we end up in a circumstance where those would not stimulate us to pursue collection efforts, bearing in mind that we had guarantees on the notes payable by which our accounts were paid, that very incredible arrangement that was made of us guaranteeing the sheik's notes by which he paid us for our accounts receivable? But that, I believe, totalled \$7 million. I think the accounts receivable are substantially higher than that.

What persuaded you, Mr. Curtis, and Coopers and Lybrand that there would be no value to pursuing collection of accounts receivable above the value of the guarantees that we had put on notes payable which retired accounts receivable?

MR. C. CURTIS: Mr. Chairman, certainly that was an area we looked at.

I guess the problem that we all saw was the fact that the Datacom Division of ABI was run along with and as part of the SADL operation. We, in fact, did have control of that part of the operation as well as the part that was in the corporation itself - SADL.

We knew that very significant losses had been incurred during this whole piece and that really the assets had been run down as a result of the way the operations had developed.

MR. D. ORCHARD: Mr. Chairman, are you saying, Mr. Curtis, that we, in running SADL - our 50-50 joint venture as well as Datacom, the 100-percent-owned division of the Saudi Arabian sheik - are you saying that our MTX staff ran the assets down to nothing so that we could recover nothing for our employers? Is that what you're saying?

MR. C. CURTIS: No, I didn't intend to quite say that. In running the business, we were incurring significant losses and, as a result, accounts receivable weren't being collected. Sales were being made and losses incurred and the value of the inventory was being eroded by time as a result of technology changes. All of these things were taking place that made the value of the business as a going concern less and less.

MR. D. ORCHARD: That partially clarifies but it still doesn't answer areas of significant doubt.

Mr. Chairman, even though we had, presumably, the management responsibility for Datacom Division, what legal obligation would we as providers of management have in assuring that accounts receivable to MTX from Datacom Division would not be paid for by the sheik's company? Why are we letting that avenue of collection slip by us?

MR. C. CURTIS: Mr. Chairman, the view of our consultants, Coopers Lybrand and our legal counsel, was that we had had control over the operations of Datacom and the SADL operation. We had instigated the sales. We had not operated it in a profitable fashion and as a result, if you looked at the whole picture as an ongoing business, it would be difficult for us to say that the accounts receivable were incurred by anything but the combined operation, that it couldn't be treated as part of the overall operation.

MR. D. ORCHARD: That gets very complex, Mr. Chairman. Mr. Curtis, even though we were operating them - and Mr. Plunkett indicated in 1984 that the two companies could be considered as one entity - it's my understanding - and possibly you can correct me if I'm wrong - that there were two separate legal entities: namely, SADL as the joint venture, and Datacom Division of ABI, Al Bassam International.

If those were separate legal entities and, I believe, under separate corporate registrations in the Kingdom of Saudi Arabia, how can accounts receivable from a separate legal entity as a company not be payable theoretically to an innocent third party? Because staff of the 50-50 joint venture certainly were MTS-MTX staff, seconded to the joint venture but worked for the joint venture.

Now, at least there should be half an obligation on Datacom, if nothing else. I'm still not convinced there's not a 100 percent obligation on the accounts receivable end of Datacom Division. But even using your argument of a 50-50 joint venture because they were operated together, surely there's a 50 percent responsibility? We've ended up exercising none.

MR. C. CURTIS: Mr. Chairman, we went into this question at great length with our legal counsel over there. They felt, given the way the company was operated, we would have a difficult time in the courts in Saudi to press our claim for accounts receivable in the total operation. Certainly it was an area we looked at.

MR. D. ORCHARD: Mr. Chairman, I guess that poses the question of why - okay, can I pose a hypothetical question? The Speaker would rule me out of order, but Mr. Chairman, as a colleague, I don't think he would. - (Interjection)- Are we saying that if SADL and a division of - and let's pick a major firm - Telecom Canada, and MTX set up this operation in Canada and they ran into these identical problems in Canada, wherein through some deception the companies were operated by the same people, even though they were separate legal entities, as we have in Saudi Arabia, are you saying the Canadian courts would make it difficult to collect accounts receivable from Datacom Division as you are now saying that your legal advice was it was difficult to make those collections in the Saudi courts?

The bottom line of my question is: Do the Saudi courts operate on a different legal framework than our courts do?

MR. C. CURTIS: Mr. Chairman, I'm not a lawyer like some are on this committee. However, my understanding in discussion - and we did have very serious and long discussions with our legal counsel - was that, yes, it would be very difficult for us to press a case successfully in Saudi based on the conditions that we were involved with. Certainly their view, their strong view was that we would be in a much better legal position to collect on notes resulting from the sale of the company to them. And I, of course, have no reason to question their judgment.

MR. D. ORCHARD: Then are we saying that the Saudi courts would have been - and I don't like to put these sorts of indications on the record - but are you saying that our legal advice indicated that the Saudi courts would not be terribly excited about a Canadian firm coming in and suing one of their nationals, through a joint venture national operation, that they would have sympathy for the Saudi national versus the foreign intruder?

MR. C. CURTIS: Mr. Chairman, I would never presume to say that. I just don't know. All I could do was accept the legal advice that we were given.

MR. D. ORCHARD: I agree. One sometimes is wont to accept legal advice from lawyers, but did you not ask the question as to whether the Saudi courts would be predisposed to the circumstance that I just laid out?

MR. C. CURTIS: Mr. Chairman, as I mentioned, we went into the question at great lengths and all of those concerns were raised and explored at great length. Certainly our consistent advice from our legal counsel was that the action we were taking would probably produce the best result in the end for us.

MR. D. ORCHARD: I don't think there's any sense pursuing this any further today until we read the wind-

down. Let me dig up today's newspaper article from - it indicates in the newspaper article, MTX Telecom Services Inc. from a business deal of a Saudi sheik just under \$20 million. What is the attributable write-off and loss to the Saudi-Arabian operations of MTX?

I'll tell you what. To expedite the committee today and because we'll be sitting again, maybe if I pose a series of questions on how the breakdown of that occurs, you could come back with them and that would be quite satisfactory.

MR. C. CURTIS: Yes, that's fine, Mr. Chairman.

HON. G. DOER: Is that for both Saudi and Cezar?

MR. D. ORCHARD: Yes, I have some questions on Cezar as well. But unfortunately, I can't find my explanation that was given to the Public Utilities Board. Oh, here we are.

HON. G. DOER: On what scenario? Are you talking on the loss, Mr. Orchard?

MR. D. ORCHARD: Mr. Chairman, I'd like to know the loss that is attributed to Saudi Arabia, Saudi Arabian operation of SADL and MTX's involvement in Saudi Arabia. I'd like to know the entire loss package there. I'd like to have that broken down into a determination of where the money went. I want to know what were accounts receivable, what volumes of money were paid out as a result of presumably - and I'm speculating here - exercising guarantees on the Saudi sheik. He would pay the accounts receivable, establish a note payable at the bank and then either MTX or the Province of Manitoba would guarantee, pay that note. I'm presuming that he didn't pay the note and the guarantee exercised by the bank.

I want to know the breakdown of where the money went, who the accounts receivable in MTX's books were from. Who was the money owing from? I want to know whether, in terms of the 50-50 joint venture, we certainly had billings in the SADL, the joint venture. I want to know the accounts receivable status there to other companies that may have been written off as a part of this \$20 million loss. I'd like an itemized breakdown of where the losses fit in.

Is that possible? Do I need to ask any more detailed questions or do you get a pretty good idea where?

MR. C. CURTIS: Mr. Chairman, we will try and provide as much of that information as we can, keeping in mind that the material that we're using included aged accounts receivable which we, that is, Coopers and Lybrand in Saudi and myself determined as far as the values were concerned. We will provide as much of that background as we have.

HON. G. DOER: I'd just like to say that we have two agreements with certain conditions that are obviously important and have been outlined today, notwithstanding the details of the two agreements versus the projected losses. We still have one major set of negotiations to complete. To this date, we are within - and you've asked that question considerably in the House - the \$27.4 million, subject to the

completion of those negotiations that you have asked me and I have (a) made public, and (b) answered in the House.

There's still one major set, as well.

MR. D. ORCHARD: Mr. Chairman, you see, the reason I'm asking the questions on the Saudi Arabian operation is it may give me a breakdown, a method of breaking down the example that was used by the Telephone System at the recent rate hearing, wherein they indicated that accounts receivable from MTX totalled \$9.5 million. Now, I'd like to know what portion of that figure is Saudi-Arabian originated and whether any of it is elsewhere?

There are estimated additional payments that are on here. I would appreciate, Mr. Chairman, as well as the breakdown requested for the Saudi Arabian portion of the \$27 million loss as well to have a breakout and explanation of the three items that are identified in the \$27.4 million dollar accounting. In what form was the equity of \$7.3 million in MTX?

It is my understanding that original capitalization plus the additional capitalization from September of 1985 totalled some \$10 million, if I recall correctly, MTS to MTX; 7.3 of that presumably is being written off and I'd like to know where that equity was applied and for what purposes.

The accounts receivable, I believe I have indicated the breakdown there and the \$10.6 million estimated additional payment subsequent to March 31, 1986, to be made by MTS on MTX's behalf, if you could provide a detailed breakdown of to whom and for what reason the additional \$10.6 million in payments are. Okay, if that information can be made available.

MR. C. CURTIS: Could I just make one comment, please, Mr. Chairman?

We will provide as much of that information and in the form that we can for you. I would only caution that there are, as I mentioned, a number of areas that are relatively small that are being settled with respect to SADL, and of course, U.S. Sprint, so there may be some minor adjustments that will take place subsequent to the figures that we give you. So these are current estimates to date.

MR. D. ORCHARD: That's fine.

Mr. Chairman, just a couple of more questions, and then we will pursue the Saudi operation after we review the Coopers and Lybrand report.

I take it from your report, Mr. Curtis, in your discussion of SADL, that you have negotiated a sale for approximately \$1 million Canadian, if the exchange rate is roughly . . .

MR. C. CURTIS: Mr. Chairman, it's actually closer to \$2 million in total if you include the guarantee that we were obligated to pay to Epson, which is a supplier, and we had guaranteed that. It comes to just over \$1.9 million, closer to \$2 million.

MR. D. ORCHARD: The actual sale of 3.5 Saudi riyal is approximately \$1 million?

MR. C. CURTIS: A little more than that. It's about 35 to 37 cents, depending on the exchange rate.

MR. D. ORCHARD: Now, how secure are the six promissory notes that are due September 1987 to March 1989 from the same Saudi sheik that we've just written off \$20 million to?

HON. G. DOER: Let me answer. Obviously, I realize that was a political problem. Every time, potentially, there would be a default. I've raised this with Mr. Curtis. It raises the whole spectrum again of the MTX issue. We did raise that and discuss how much money we can get up front. Obviously, from a business perspective, it was better to have the future promissory notes and the million Saudi riyals in our hand with the Epsom guarantee.

From a political perspective it was probably better not even to have promissory notes later on, notwithstanding the fact that the promissory notes included money. I had strong advice from Mr. Curtis and Coopers and Lybrand, notwithstanding the political problems that presented, and I certainly raised that.

I saw your eyes twinkle when that was mentioned in the report, that it was a better opportunity for Manitoba to recover some additional money, albeit that the whole thing has been obviously a disaster for the Manitoba public. It was a better way of recovering some additional money, and I can now pass it on to Mr. Curtis in terms of those promissory notes.

MR. C. CURTIS: Mr. Chairman, certainly in our negotiations I was pressing for fully guaranteed bank notes. At one point, the negotiations broke down because that wasn't going to be possible from our partners. However, in the final negotiations, I was able to obtain the promise of three bank guaranteed notes within 60 days. I'll be very happy if we receive those guarantees within the 60 days. And the Minister is quite right; I had to twist his arm to accept those notes.

I felt, however, given the advice of our legal counsel, that we would have a much better position if we had promissory notes in court. We would have had a much better position to collect on those notes than if we would remaining as a shareholder and trying to collect from accounts receivable.

MR. D. ORCHARD: Where did the three notes come in?

MR. C. CURTIS: I'm sorry. There are six notes that make up the \$2.5 million. The first three that become due are to be bank guaranteed notes. We have the promissory notes; we haven't as yet received the bank guarantees.

The agreement calls for the partners to provide those guarantees within 60 days of the signing of the agreement.

MR. D. ORCHARD: When are the 60 days up, Mr. Chairman?

MR. C. CURTIS: I think it's July 2, I believe.

HON. G. DOER: Mr. Chairman, I did mention that on July 2 if those notes weren't in - I can anticipate the question of the honourable critic.

I guess the bottom line was that it was felt by the people providing us business advice that this was the

best business arrangement we could make and the best settlement, based on legal accounting and Mr. Curtis' advice. I accepted that in terms of the business aspects to it. I recognize that, any time you don't have the money in your hand, it's a risk, and obviously with past situations, I consider it a risk. I'll put that fully on the record.

We are operating with the mandate of coming in under the \$27.4 million and, whatever else we can recover within that number, it's better for us, but it is a risk. I have been apprised that the total package was in the best interest of the MTX-MTS from Coopers and Lybrand, Mr. Curtis, etc.

MR. C. CURTIS: Could I just make one more comment, if I might, Mr. Chairman? That is that one area we looked at very seriously was going into liquidation, and the problems that appeared from that particular scenario indicated to us that it was not the best choice.

The time involved and the cost of undertaking a liquidation would probably result in no cash whatsoever, or even perhaps additional costs and would take up to two years. Of course, we're not represented over there, or will not be represented over there, and we felt this was not in the best interests of the province.

MR. D. ORCHARD: Mr. Chairman, I just simply comment that March 1989 is two years from now.

Mr. Chairman, are the promissory notes interest bearing?

MR. C. CURTIS: No, they're not, Mr. Chairman.

MR. D. ORCHARD: Why are the promissory notes not interest bearing?

MR. C. CURTIS: Our legal advice was that any notes in Saudi Arabia that require interest are not legal notes.

MR. D. ORCHARD: That I believe was a subject of question in committee a year ago, whether we were legally able to collect interest on our accounts receivable, etc.- (Interjection)- Well, we were told yes. My leader reminds me we were told that they were collecting interest, but I would suspect that the interest we collected is part of the \$20 million we're writing off.

Mr. Chairman, once again, I may want to pursue more questions on this when we read the Coopers and Lybrand Report. But I presume that in the last paragraph of your opening statement, Mr. Curtis, when MTX grants similar indemnity to ABI against all Canadian claims, that we are in essence saying to the Sheik Al Bassam that we will not pursue any collection of accounts receivable as a result of the MTX operation in Saudi Arabia.

MR. C. CURTIS: That's correct.

MR. D. ORCHARD: Now I hope that, because legal advice said to you at one time that you couldn't pursue collection of accounts receivable and then legal advice recently says, yes, you can pursue collection of a promissory note in Saudi Arabia, I hope that your agreement has made specific exclusion to the promissory notes that you've received.

MR. C. CURTIS: I'm advised by our legal counsel that we would have less difficulty in attempting to collect on promissory notes that are part of the agreement, and they are considered part of the agreement.

MR. D. ORCHARD: Mr. Chairman, in the middle of page 2, you indicate, "I believe this agreement," etc., etc., and the last two lines of that paragraph says, ". . . and significantly reduces the exposure to MTX for future liabilities arising from its involvement in Datacom."

Mr. Chairman, that is not a blanket statement that we are no longer exposed. That says that we are significantly reduced to exposure. What does that mean?

MR. C. CURTIS: Mr. Chairman, when members get a chance to read the report, they'll realize that there is one area relating to possible taxes in Saudi that go back to December of 1986 - in other words, when we were involved - that we have agreed to share.

I'm advised by our Coopers and Lybrand affiliate in Saudi that, given the fact that the company has not been profitable, in fact, has shown substantial losses, the likelihood of any taxes are remote. There may be perhaps some penalties, but it's something that we can't establish at this time because the assessments have not been completed for the last several years. So we agreed to include that clause in the agreement.

MR. D. ORCHARD: Mr. Chairman, the whole area of tax liability leads to a very interesting series of questions.

For instance, Canadian tax law - this company was operating in Canada, and you were approached by the Canadian tax authorities, and said, for SADL, we want to see your corporate books since inception and, if you were unable to produce them - as apparently we are unable to produce them - I think the Canadian tax experts would say to you, well, we deem that your income was XYZ. Therefore, pay taxes.

Is that a scenario that we are exposed to in Saudi Arabia, given that we can't recreate books from December 31, 1984 to the inception in 1982?

MR. C. CURTIS: Mr. Chairman, I did look at that aspect of it because I have the same concern. Their tax law is a little bit different from ours in that a taxpayer is permitted to file an interim statement based on his best estimate of the results of the operations, and this has been done for the years involved.

Whether they go back and carry out major assessment of the returns is a question. We are advised by Coopers and Lybrand in Saudi that probably they would likely only look at it from the point of view of not having completed the interim returns on time - there could be penalties perhaps - and that they would be less likely to raise questions in the event of a company ceasing to operate with a foreign partner or going into liquidation.

MR. D. ORCHARD: I guess a fair question at this time, are the relations with Sheik Al Bassam cordial at this point in time?

MR. C. CURTIS: With myself?

MR. D. ORCHARD: With Manitoba Telephone System, MTX, its officers and assigns.

MR. C. CURTIS: The relationships with myself, since I was the only one that I guess was directly involved with them, is reasonably cordial. There was a significant amount of, not hostility, but concern, I guess, and insecurity on their part about the attitude of Manitoba, and I think a feeling of having been let down by seeing their representatives being let go by the Telephone System. But I think the sale to them was done with a reasonable amicability.

MR. D. ORCHARD: Mr. Chairman, I appreciate the delicacy with which you express the current relationship with the Saudi sheik. If he was concerned about how we viewed him in Manitoba, I think most ratepayers who are now paying more for their telephone service would say, we don't care if he's not too cordial about the way we wound down the corporation because he's got away with \$20 million and we're paying for it.

MR. C. CURTIS: I guess I'm not entirely in agreement with that statement. I'm not aware that he has had the benefit of any of the proceeds that have flowed into that operation. All indications that we had are that he is not in a strong financial position.

I guess my comment was the fact that he didn't understand why the business was being criticized so heavily, given the fact that we did in fact have control of the operating part of it.

MR. D. ORCHARD: Mr. Chairman, with all due respect to Mr. Curtis, we heard on a number of occasions answers beginning with the phraseology, "I am not aware," during the last number of months that we've dealt with MTX. I have to tell you, Mr. Curtis, with all due respect to you personally, I simply am unable to accept that as necessarily the way it is. After all, someone somewhere has availed themselves of \$20 million of Manitoba Telephone System money in Saudi Arabia. I suggest that, in the course of Coopers and Lybrand and these hearings we cannot have a clearer understanding of who benefited from our loss of \$20 million, then we've really done nothing to determine how we got into the mess and what the problems were. But possibly we can have further light shed on that.

Mr. Chairman, I'd like to pose a question to Mr. Curtis. Given that the relations may not be 100 percent with the Saudi sheik, and given that I believe when we entered into this business arrangement it was touted by NDP Cabinet Ministers as an arrangement with a very influential Saudi sheik who was even, I believe, related to the Royal Family; and given that if those are the business attributes that were acclaimed by the NDP some four-and-a-half years ago on this very profitable business venture in Saudi Arabia; given that we may be parting on less than cordial terms, and given that the Kingdom of Saudi Arabia may have the ability of sheiks and those connected to the Royal Family who control government in that kingdom, is there a possibility that some of the tax scenarios may be precipitated by an angered partner, influential, related to the Royal Family in Saudi Arabia, so that we may well be on the hook for greater tax liabilities, given the

fact that we can't reconstruct books for two-and-a-half years of operation in Saudi Arabia?

HON. G. DOER: I just want to comment on the political, and then we'll get into the technical.

We have admitted to the public, through a very, very thorough evaluation by Coopers and Lybrand, that the investment in Saudi Arabia was a mistake. It was not a success; it's something that a number of people have been held accountable for. We have said that publicly and I'd like to reiterate that at this committee.

In terms of the tax issue, and you've mentioned in November, and I believe it's true, in terms of all these issues, you have said before that Coopers and Lybrand was very thorough, very competent. We know that Mr. Curtis' record is impeccable in terms of these issues and he did look thoroughly at - obviously the tax issue was an issue I raised to follow up, he raised it, and Coopers and Lybrand did, as well.

So we had legal advice, Coopers and Lybrand advice, and certainly advice from Mr. Curtis in terms of the best way out of a bad deal for Manitobans.

MR. C. CURTIS: Well, it's difficult for me to answer the member's question. I'm not aware of the connections of the Bassams. There's no indication to me that they are in any way connected with the government, and I can't respond any more than that.

MR. D. ORCHARD: Mr. Chairman, I would like to ask Mr. Curtis whether he was actually in Saudi Arabia himself.

MR. C. CURTIS: Mr. Chairman, yes, I was, two weeks.

MR. D. ORCHARD: Mr. Chairman, if I may I'd like to consider or to carry on just with some questions and this may well require information being brought forward to the next meeting.

Mr. Chairman, back in - I don't know which hearing it was, which meeting it was, yes - it was the November 28th meeting, reference was made to a letter that Mr. Silver as, I believe at that time he was Deputy Minister of Crown Investments, Silver wrote a letter to the Chairman of the MTS Board and the letter was dated August 9, 1985. There was a commitment on November 28 at the committee hearing that the letter would be produced; Mr. Mackling made that commitment.

Will that letter be available to me later today or . . .

HON. G. DOER: I am aware of the letter, and I can obtain it and forward it to your attention.

MR. D. ORCHARD: Thank you.

Mr. Chairman, would the Minister see that a letter which was referred to in the board minutes of - it was a letter that Ms. Phillips, as the Acting Chairman of the Board, indicated at the June 10, 1985 meeting, that a letter dated June 5, 1985, addressed to her as Acting Chairperson from the Minister of Industry, Trade and Technology.

Now this letter advised that Cabinet had reviewed the proposal to create a company known as North American Telemetry Limited. Could the Minister make that letter available as well?

HON. G. DOER: Yes, I can make it available. I have read it and my recollection of it was that the Minister of IT and T at that time suggested that this may have some potential, but that it would be subject to the decision of the MTS' independent analysis on it, if I recall reading it correctly.

MR. D. ORCHARD: Recollection would be perfect when we have the letter tabled, Mr. Chairman.

HON. G. DOER: Perhaps it won't be. Nobody's perfect.

MR. D. ORCHARD: I take it that we will have that letter tabled as well.

HON. G. DOER: Yes.

MR. D. ORCHARD: Mr. Chairman, a question to Mr. Curtis, page 277 of Hansard, November 26, you indicated that some additional sales were made on 45-day terms and that, by December 1, we would probably be paid.

Were we paid on those additional shipments after Mr. Mackling imposed a ban on shipments?

MR. C. CURTIS: Mr. Chairman, yes, we were. We had to sweat it though. I could tell you it was at the last day.

MR. D. ORCHARD: Well, they were on time then, I take it?

MR. C. CURTIS: A little bit late. We were sweating it, to be very honest with this committee.

MR. D. ORCHARD: Well, it's interesting that when we get into that in further review after that hearing was over, those were the terms that we were operating under in normal conditions. They were not tough negotiated terms as Mr. Mackling had indicated.

MR. C. CURTIS: They're tough enough that they paid.

MR. D. ORCHARD: Well, Mr. Chairman, also at the Friday meeting, we had an undertaking by Mr. Beatty that he would provide further details of the system's understanding of the release of the Annual Report of MTS and when it can be made public, etc., etc., and I wonder if that explanation might be available.

HON. G. DOER: I believe it is. I'll take the question as notice, but it certainly would be available to you if you'd like it now. I'll see if I've got it.

MR. D. ORCHARD: Now, Mr. Chairman, also on Friday, the 28th of November, Mr. Beatty indicated that he would have to check our records and find out the answer to the question I posed as to who in the Telephone System undertook review of the April 4, I believe it was, or April 2, internal audit - I'll get the date exactly right so we don't have any confusion - the April 2, 1985, internal audit by the Telephone System on MTX Telecom Services Incorporated. It was reviewed with Mr. Saul Miller, then presumably retroactively resigned chairman of the board. Mr. Beatty was going to indicate who in

the Telephone System reviewed that report with Mr. Miller. I wonder if that information might be made available at the next meeting, and then perchance that individual might even be available for a committee to answer any questions that might be posed to him or her.

HON. G. DOER: Yes, I'll make that available to the member.

MR. D. ORCHARD: Mr. Chairman, I'd like to receive a list of the present board structure, please?

HON. G. DOER: The present board, we have two vacancies on the Board of Directors which I am in the process of dealing with in terms of recruitment. As well, the chair of the board, Ms. Edmonds, in fact before has indicated her wish to resign a couple of months early, and it's been made public, for health reasons. I was pleased that her health has gotten better in terms of the last few months and I've asked her to stay on until the end of her term, which is the end of June, I believe, or to the end of these committee hearings, certainly to provide some continuity in these issues and she's accepted that. I appreciate it. There are two vacancies, both of which have been public, Mr. Chaput and Mr. Jha, and I am in process of recruiting. I am forwarding some names to my principals on those two vacancies on the board. There may be a potential for another board vacancy in a short term that I'll be certainly going to make public, probably as these committee hearings proceed.

MR. D. ORCHARD: So then I take it - no, I can't take it, because we have Ms. Phillips as vice-chairman.

HON. G. DOER: I can give you the rest of the names. I thought you would have the current list. The chair - and I can table a copy - Jean Edmonds is Chairperson, Don Scott is Vice-Chairperson, Frank Baker is the Commissioner, Mariann Burka is a Commissioner, Audrey Flood is a Commissioner, Mr. Roy McMillan is a Commissioner, and a person named Joanne Swayze is a Commissioner. I can provide those names for you, in terms of the present constitution of the board.

MR. D. ORCHARD: Fine.

Mr. Chairman, does Mr. Feaver, who was the telecommunications advisor to Mr. Mackling, still act in that capacity to you as the present Minister responsible?

HON. G. DOER: Mr. Feaver works in the Telecommunications office. He is under the Estimates of the Department of Cultural Affairs, which I believe is in the Legislature shortly. Mr. Feaver does brief me, in particular, the federal-provincial negotiations in Telecommunications. He is one of the officials involved in the federal-provincial negotiations. He is one of a group that will brief me, particularly in the area of Telecommunications.

MR. D. ORCHARD: Does Mr. Feaver still attend, as an observer, MTS Board meetings?

HON. G. DOER: Yes, he does.

MR. D. ORCHARD: In answer to the question that Mr. Mackling took as notice on Friday, November 28, has Mr. Feaver received agendas and board minutes of the Board of Commissioners of MTS in the time that he has been presumably placed over a period of years as an observer at MTS Board meetings?

HON. G. DOER: I would assume that the majority of the time he would. I can say to the committee that Mr. Feaver provides advice not on the operations and the finances of the day-to-day operations of the Telephone System, but he will provide advice on issues, such as cellular telephone, the Interconnect issue in terms of a broad policy issue, the issue of federal-provincial negotiations, what are the implications particularly of the jurisdiction issues, the issues of broadcasting.

He also advises the Cultural Affairs Minister on the issues of broadcasting, but I would not receive advice from Mr. Feaver on the finances of the organization. I would receive that from the CEO, the chair of the board and the Vice-President of Finance. I would not receive advice from that individual in his capacity on the personnel situation or those kinds of things. He advises on issues of broadcasting to the Minister of Cultural Affairs and in issues of Telecommunications to myself. And sometimes I could say that there's a healthy dispute between the longer-term issues of competition and Telecommunications and the Telephone System, in terms of the revenue, and there is a mixture of opinion that comes to one as a Minister in that capacity. I believe you had advisors in these areas as well.

MR. D. ORCHARD: Mr. Chairman, we'll pursue Mr. Feaver's status after you confirm definitely that he received board minutes.

HON. G. DOER: I think to the best of my knowledge, I believe he did, and the agendas.

MR. D. ORCHARD: Equivalent to a "don't recall" in some cases.

HON. G. DOER: No, it isn't. I said I believe he does.

MR. D. ORCHARD: Well, fine. We'll just assume that he did then.

HON. G. DOER: Okay.

MR. D. ORCHARD: Mr. Chairman, at the next meeting, can we have a complete explanation of 10J which was alluded to, I believe, by Mr. Robertson? Part of the information may well be there, but basically my questions for the next meeting, to discuss it hopefully at the next meeting, were the funds that were set aside and when they were set aside.

HON. G. DOER: Mr. Fraser, I think even has that now if you'd like it, or for the next meeting.

MR. D. ORCHARD: If it's something that can be presented in written form, that would be delightful.

HON. G. DOER: Mr. Fraser, would you like to do that now or would you like to wait until next meeting? I didn't want to put you on the spot.

MR. D. ORCHARD: . . . take a look at it and ask post questions next committee, Mr. Chairman, that would be fine.

MR. CHAIRMAN: Then I take it that the written document Mr. Fraser has referred to will be made available to Mr. Orchard -(Interjection)- and Mrs. Carstairs certainly?

MR. D. ORCHARD: Mr. Chairman, as well, if there was a similar written presentation that was available explaining the issue 1Q and its mid-term conversion to 1V, that issue being in Swiss francs. I'd appreciate an explanation of that particular foreign currency conversion in advance of the due date.

HON. G. DOER: Yes, we can make that available to you. I have spent some time obviously looking at the 10J issue. I'll have to look at the details of the other one.

MR. D. ORCHARD: Mr. Chairman, at the next meeting - possibly even at this meeting - can the Minister indicate what the cost of the Coopers Lybrand group has been to the Telephone System to date and what is the anticipated future costs as they complete the orderly wind-down of MTX?

HON. G. DOER: I can have Mr. Curtis answer that question. The rough numbers are - the first approximately \$340,000 for the first stage which produced the reports in November, the 21st. I believe there was an additional potentially \$40,000 for the committee hearings, if that's correct. That's why I mentioned to the Opposition member I'd like to - with all the greatest respect to Coopers and Lybrand - keep the numbers as prudent as possible for the feedback from those groups. There's some additional \$400,000, I believe, for the rest of the wind-down, and it's a significant amount of money. I believe the totals have been to date \$742,000 for all phases. This is a significant amount of money. It includes some of the other legal fees and whatever else and it has been factored in the first two settlements, as I understand it, with the costs of those settlements. I believe Mr. Curtis . . .

MR. D. ORCHARD: Mr. Chairman, that was my next question. It's obvious the Manitoba Telephone System has paid these costs, and they are part of the \$27.2 million provision for loss.

HON. G. DOER: Yes, I think I said that in the House as well.

MR. D. ORCHARD: Mr. Chairman, I'd like to determine what the costs of Mr. Ross Nugent and his support staff are in assisting the Manitoba Telephone System in their pursuit of an 11.5 percent telephone rate increase before the Public Utilities Board, and other duties that Mr. Nugent may well have taken on behalf of the system.

HON. G. DOER: I believe the fee was \$125 per hour. Mr. Robertson, or Mr. Beatty, the answer's there. We can get the specific amount of money in terms of the number of dates or the hearing, period of time.

MR. D. ORCHARD: Mr. Chairman, as well, the next meeting will have a number of hours so we can find out the total cost presumably, but can the Minister develop a breakdown within the Telephone System as to what our staff lawyers are being paid, what the total cost of staff lawyers are in the Telephone System?

HON. G. DOER: Yes, we can endeavour to get that information. Mr. Robertson and I have talked - and I think it has been a public story - about the issue of internal use of lawyers and external use. Notwithstanding the wind-down of MTX, which legal advice was required with particular of expertise, obviously in California and Saudi Arabia, that Mr. Robertson has stated publicly that he will be looking at that issue as a management issue in the corporation, what items go to external lawyers, and why and how we can control those costs to have the maximum use of internal lawyers.

MR. CHAIRMAN: Just before we continue questioning, it is almost twelve o'clock. What is the will of the committee? Is it to continue or to rise at 12:00?

MR. D. ORCHARD: I've got only a couple of more questions on a series of questions for information that I would like for the next sitting. I have an extensive series of questions, but it would not fit within the time frame so I'd defer those to the next committee hearing presumably. If it was the will of the committee, possibly others of the committee might want to ask some questions for information for the next meeting as well. I've basically one more question.

MR. CHAIRMAN: Just for the committee, I have Mr. Filmon next and then Mrs. Carstairs. Do the other two have questions they want information for, for the next meeting, or would they wait until the next meeting to ask their series of questions?

Mr. Filmon.

MR. G. FILMON: My questions I think can be answered here, or certainly the discussion can be engaged here, so it's up to the committee as to how long we sit.

MR. CHAIRMAN: Mrs. Carstairs.

MRS. S. CARSTAIRS: Now, my questions could be asked here as well and, provided we can be given some time in the next meeting, I'd be perfectly willing to adjourn. We haven't got any time in this one.

MR. CHAIRMAN: Then is it the will that, once Mr. Orchard has asked his final question, to grant the information from the Minister or his staff that the committee would then rise?

HON. G. DOER: I just have one logistical problem I'd like to raise with the committee. Mr. Curtis will be out of town next week, and back the week after, so I would want Mr. Curtis here to answer questions on MTX and the negotiations.

MR. CHAIRMAN: I believe Mr. Orchard would like him as well. I believe the next meeting can be scheduled in cooperation between the two House Leaders.

Thursday, 21 May, 1987

MR. D. ORCHARD: I'm sure the Chairman can arrange a suitable time for the next meeting.

HON. G. DOER: Mrs. Carstairs, I'd just like you to be aware of that as well.

MR. CHAIRMAN: Just before you continue, I must, just for the record, say that we've now filed with the committee the explanation - is it from Mr. Fraser on the bond series 10J retirement?

MR. D. ORCHARD: Mr. Chairman, the last area, and this is an extensive area. It will not be something we can deal with probably even next committee and that's the whole issue of cross-subsidization within the Telephone System. My question to the Minister would be: Did Coopers Lybrand, in terms of their investigation of MTX, go into the whole area of what legitimately was charged by MTS to MTX, and whether those charges were sufficient, whether they were not sufficient, whether the process was in place? Did Coopers Lybrand undertake a study on that?

HON. G. DOER: It wasn't the specific terms of reference. The priority was to get the wind-down over the MTX affairs, where the components of MTX, if viable, would go within the corporation. There may be some information that has arisen in terms of the issues of cross-subsidization. I don't recall it at this time. I have read material from the Telephone System over that issue, over the MTX affair.

The other issue, of course, is of great concern to me in which we'll identify particularly in the evaluation of many of the projects that have been identified to this committee before is having all the actual costs for all the projects. I mentioned FAST and FRED and some of these other groups, projects that we have evaluated internally, and do plan to have evaluated by Coopers and Lybrand externally which has another cross-subsidization component to it.

MR. D. ORCHARD: Mr. Chairman, the reason I posed the question is that if Coopers Lybrand, as an

independent, no strings attached if you will, auditing firm were to look at that, it would be of value to have them at committee to answer questions about cross-subsidization, because I have to tell you that has always been an area of significant concern. I, for some time, believed that there was significant cross-subsidization between the Telephone System and some of their non-telephone endeavours.

Now if Coopers and Lybrand can offer that independent look, then I would request of you to have them here. But bearing in mind that the Telephone System has already spent enormous amounts of money on external agencies, I would not have them here unless they can fruitfully contribute to that debate.

HON. G. DOER: I'm advised that this issue of subsidization or cross-subsidization has been looked at by the Telephone System's own auditor, Arthur Andersen, and has identified some of those costs in the annual report.

I wouldn't see, unless there's something readily available, proceeding to spend more of the Telephone System money on an additional project. We have enough of the existing projects. But I will determine that information.

I am advised that the auditor, Arthur Andersen, does appropriate some of the expenses across MTS and MTX in the audited statement as an expense of MTX, and therefore it shows on the bottom line. But I'll take the further details of that as notice.

MR. D. ORCHARD: Mr. Chairman, I think, if we can discuss the Minister's inquiries next meeting and certainly pursue the cross-subsidization at a later meeting, that would be sufficient. If Coopers and Lybrand can't contribute to that discussion, then fine.

That's the end of my questions, Mr. Chairman.

MR. CHAIRMAN: Is it the will, then, of the committee - committee rise? (Agreed)
Committee rise.

COMMITTEE ROSE AT: 12:02 p.m.