



Third Session - Thirty-Fifth Legislature  
of the  
**Legislative Assembly of Manitoba**

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**STANDING COMMITTEE**

on

**ECONOMIC DEVELOPMENT**

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39-40 Elizabeth II

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*Chairperson*  
*Mr. Bob Rose*  
*Constituency of Turtle Mountain*



**VOL. XLI No. 1 - 10 a.m., THURSDAY, February 27, 1992**



**MANITOBA LEGISLATIVE ASSEMBLY**  
**Thirty-Fifth Legislature**

**Members, Constituencies and Political Affiliation**

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NAME	CONSTITUENCY	PARTY
ALCOCK, Reg	Osborne	Liberal
ASHTON, Steve	Thompson	NDP
BARRETT, Becky	Wellington	NDP
CARSTAIRS, Sharon	River Heights	Liberal
CERILLI, Marianne	Radisson	NDP
CHEEMA, Guizar	The Maples	Liberal
CHOMIAK, Dave	Kildonan	NDP
CONNERY, Edward	Portage la Prairie	PC
CUMMINGS, Glen, Hon.	Ste. Rose	PC
DACQUAY, Louise	Seine River	PC
DERKACH, Leonard, Hon.	Roblin-Russell	PC
DEWAR, Gregory	Selkirk	NDP
DOER, Gary	Concordia	NDP
DOWNEY, James, Hon.	Arthur-Virden	PC
DRIEDGER, Albert, Hon.	Steinbach	PC
DUCHARME, Gerry, Hon.	Riel	PC
EDWARDS, Paul	St. James	Liberal
ENNS, Harry, Hon.	Lakeside	PC
ERNST, Jim, Hon.	Charleswood	PC
EVANS, Cliff	Interlake	NDP
EVANS, Leonard S.	Brandon East	NDP
FILMON, Gary, Hon.	Tuxedo	PC
FINDLAY, Glen, Hon.	Springfield	PC
FRIESEN, Jean	Wolseley	NDP
GAUDRY, Neil	St. Boniface	Liberal
GILLESHAMMER, Harold, Hon.	Minnedosa	PC
HARPER, Elijah	Rupertsland	NDP
HELWER, Edward R.	Gimli	PC
HICKES, George	Point Douglas	NDP
LAMOUREUX, Kevin	Inkster	Liberal
LATHLIN, Oscar	The Pas	NDP
LAURENDEAU, Marcel	St. Norbert	PC
MALOWAY, Jim	Elmwood	NDP
MANNES, Clayton, Hon.	Morris	PC
MARTINDALE, Doug	Burrows	NDP
McALPINE, Gerry	Sturgeon Creek	PC
McCRAE, James, Hon.	Brandon West	PC
McINTOSH, Linda, Hon.	Assiniboia	PC
MITCHELSON, Bonnie, Hon.	River East	PC
NEUFELD, Harold	Rossmere	PC
ORCHARD, Donald, Hon.	Pembina	PC
PENNER, Jack	Emerson	PC
PLOHMAN, John	Dauphin	NDP
PRAZNIK, Darren, Hon.	Lac du Bonnet	PC
REID, Daryl	Transcona	NDP
REIMER, Jack	Niakwa	PC
RENDER, Shirley	St. Vital	PC
ROCAN, Denis, Hon.	Gladstone	PC
ROSE, Bob	Turtle Mountain	PC
SANTOS, Conrad	Broadway	NDP
STEFANSON, Eric, Hon.	Kirkfield Park	PC
STORIE, Jerry	Flin Flon	NDP
SVEINSON, Ben	La Verendrye	PC
VODREY, Rosemary, Hon.	Fort Garry	PC
WASYLYCIA-LEIS, Judy	St. Johns	NDP
WOWCHUK, Rosann	Swan River	NDP

**LEGISLATIVE ASSEMBLY OF MANITOBA**  
**THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT**

**Thursday, February 27, 1992**

**TIME — 10 a.m.**

**LOCATION — Winnipeg, Manitoba**

**CHAIRPERSON — Mr. Bob Rose (Turtle Mountain)**

**ATTENDANCE - 10 — QUORUM - 6**

*Members of the Committee present:*

Hon. Messrs. Downey, Enns

Messrs. Evans (Brandon East), Lamoureux, Lathlin, Laurendeau, McAlpine, Mrs. Render, Messrs. Rose, Sveinson

**APPEARING:**

Rosann Wowchuk, MLA for Swan River

Dale Smeltz, Chairperson, A.E. McKenzie Co. Ltd.

Ray West, President and Chief Executive Officer, A.E. McKenzie Co. Ltd.

Ken Robinson, Vice-President of Finance, A.E. McKenzie Co. Ltd.

**MATTERS UNDER DISCUSSION:**

Annual Report for Channel Area Loggers Ltd. for the year ended March 31, 1990

Annual Report for Moose Lake Loggers Ltd. for the year ended March 31, 1990

Annual Report for A.E. McKenzie Co. Ltd. for the years ended October 31, 1990 and 1991.

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**Clerk of Committees (Ms. Bonnie Greschuk):** Will the committee please come to order. We must proceed to elect a Chairperson for the Standing Committee on Economic Development. Are there any nominations?

**Mr. Gerry McAlpine (Sturgeon Creek):** I nominate Mr. Rose, member for Turtle Mountain.

**Madam Clerk:** Mr. Rose has been nominated. Are there further nominations? Since there are no further nominations, will Mr. Rose please take the Chair.

**Mr. Chairperson:** Will the Committee on Economic Development please come to order. The following Crown corporations will be considered today: Channel Area Loggers Ltd. for the fiscal year ending March 31, 1990; Moose Lake Loggers Ltd. for the fiscal year ending March 31, 1990; and A.E. McKenzie Co. Ltd. for the fiscal years ending October 31, 1990 and 1991. Does the minister responsible have an opening statement?

**Hon. James Downey (Minister responsible for and charged with the administration of The Communities Economic Development Fund Act):** Yes, I do, Mr. Chairperson. I wonder if it would be in the agreement of the committee, seeing as we have McKenzie Seeds people here from Brandon, that we do the McKenzie Seeds report first?

**Mr. Chairperson:** Is it agreeable to do the McKenzie Seeds report first?

**Floor comment:** Agreed.

**Mr. Chairperson:** Agreed.

**Mr. Downey:** Thank you, Mr. Chairperson. I have an opening statement to make on behalf of McKenzie Seeds, and I first of all want to introduce the president and chief executive officer, Mr. Ray West, who is here this morning. I want to say that we are pleased that he is here, and I want to personally compliment him on his hard work and effort that he has put into McKenzie Seeds and the books which are being presented here before this committee. It is a proud time for McKenzie, and it is a proud time for Ray West, and I am proud as a minister that he has put the work and effort that he has.

\* (1005)

We as well have Ken Robinson who is the—I guess he is in the financial branch. I am not just sure what—[interjection] vice-president of Finance. Ken, I appreciate the work and effort that you have put in, and I am pleased that you are at the committee. Chairman of the board, Dale Smeltz, who as well has equally worked as hard with all

board members and is as well here for the committee to ask questions of.

The A.E. McKenzie Co. Ltd. Annual Report shows that once again excellent progress has been made by the company during its 1990 and '91 operating years. During the 1990 the company increased its profits to \$711,000, an increase of \$295,000 over the 1989 level. During the 1991 the company increased its profits to \$1,096,000, an increase of \$385,000 over the 1990 levels.

Several growth initiatives were entered into during the 1990 and 1991, the most significant of which was the acquisition of a mail-order division of McConnell Nursery of Port Burwell, Ontario, and its subsequent move to Brandon, as well as the expansion of the company's mail-order division into the north-central United States. Other major initiatives included the exclusive Canadian distributorship of Thompson and Morgan seeds of England, which is an upscale line of specialty vegetables and flower seeds. McKenzie Co. intends to always look for new growth opportunities in the years ahead, and will continue to build on its distinctive competitiveness such as its sales, marketing and distribution strengths.

\* (1010)

McKenzie Co. is comprised of dedicated, hard-working people who are committed to the profitable growth of the company. One only has to visit the company to see the vibrant and enthusiastic atmosphere that prevails. Employee spirit and morale is strong at McKenzie which bodes well for the future. I am also very pleased to report that every McKenzie employee received a bonus during the 1990-91 through the company's profit-sharing plan which was recently approved by the McKenzie board of directors. Overall I am pleased that the company continues to make solid progress.

I want to thank the chairman, Dale Smeltz, and the members of the board for the excellent job that they have done. Also, I would like to thank McKenzie employees for their strong commitment to the profitable growth and development of the McKenzie Co.

Thank you, Mr. Chairperson.

**Mr. Chairperson:** Does the critic of the official opposition wish to have an opening statement?

**Mr. Leonard Evans (Brandon East):** I welcome the minister's remarks. They are not a surprise as to what he told us because, of course, there was a

story in the Brandon Sun, front-page headlines, McKenzie Seeds profit grows to over \$1 million—a nice picture of Ray West. So we are not surprised, and we are very, very pleased with the progress made by the company. I know in particular Ray West has spent many years, in fact, almost a lifetime, working for the company. He is a very dedicated and loyal chief executive officer of that company, and we are delighted with the progress made by the company.

Now we have a lot of detailed questions which we would like to ask, doing our job as helping to represent the taxpayers in Manitoba who are the shareholders of this company, being a publicly owned company. We will want to ask a lot of questions about the finances, and a lot of questions about sales ventures and some of the changes that are being proposed. I trust that we will have the answers forthcoming. I do not see why we would not. Overall we are very pleased with the performance of the company, and we look forward to some detailed discussion as to how the profit was arrived at and what the forecasts are for the one or two years ahead.

\* (1015)

**Mr. Chairperson:** Does the critic for the second opposition have an opening statement?

**Mr. Kevin Lamoureux (Inkster):** Mr. Chairperson, it is always encouraging to see a corporation in a relatively short period of time turn around a deficit situation and being put on the plus side of the ledger, if you will. It is equally encouraging to see that the profits have jumped up quite significantly given the economic times. We see many businesses, in fact, going the opposite direction, and it says a lot for both management and labour over at A.E. McKenzie Seeds in terms of their targets and what they are doing. I just want to put on the record that we commend the actions thus far from the organization in hopes that it will continue to grow.

In looking at some of the sales, I see year over year again it has gone up quite admirably, and we can only hope and anticipate that we will continue to see the sales as A.E. McKenzie decides to distribute more and more outside of the province of Manitoba.

**Mr. Chairperson:** I would appreciate some guidance from the committee. Will we consider the reports page by page, or is there some other suggestion?

**Mr. Leonard Evans:** Well, I think it would be easier just to go through the report as the questions flow. There are not too many pages. We could do it page by page, but I think it would be just as expeditious to allow members of the committee to ask questions, hopefully in some kind of order, but it may involve going back and forth again. So I would prefer to go through the report with questions as they arise.

**Mr. Chairperson:** Is that agreeable to committee? I would remind the committee that we have two reports from McKenzie Seeds. Is it agreeable that we proceed in that fashion?

**Mr. Leonard Evans:** Is this why I could not find the year ending October 31, 1990? I was looking through my files and I could not find the 1990 report, and I thought I had mislaid it. So we are going to deal with 1990 first and then discuss 1991. Is that the proposal, Mr. Chairperson?

**Mr. Downey:** It is whatever the committee members would like. If the member would like to deal with 1990 and then 1991, fine, or we could deal with them both and then pass them both at the same time—whatever the committee desires.

**Mr. Leonard Evans:** We have to deal with them one at a time. I cannot see how you can do both simultaneously. Obviously, there is going to be overlapping in the types of questions that will apply to both, but you have to deal with one and then the other. I cannot see how you can deal with two simultaneously.

**Mr. Downey:** Mr. Chairperson, that is quite okay. We will deal with the 1990 report.

**Mr. Chairperson:** It is agreed. Then we shall begin with the 1990 report.

**Mr. Downey:** Mr. Chairperson, I am not sure whether the chairman of the board or the president have any comments that they would like to make at the outset, and if they have now would be an appropriate time for them to do so.

**Mr. Chairperson:** Is there anyone who wishes to make an opening comment?

**Mr. Dale Smeltz (Chairperson, A.E. McKenzie Co. Ltd.):** Mr. Chairperson, just a short report.

Since I have been associated with A.E. McKenzie Company, it has always been a pleasure to appear before your committee. It is a particular pleasure to report on this occasion the profits of the past two years of company activities.

The \$711,000 of profits that we report for 1990 are an improvement, as the minister mentioned. The profits of \$1,096,000 that the company achieved in 1991 are a significant milestone in the recent history of A.E. McKenzie Company.

The board is very pleased and proud of this achievement. We recognize that the company continues to grow and do well at a time when economies throughout the world are in recession; to simply maintain our position is difficult.

The considerable effort put forward by the management team led by Ray West and the efforts made by each and every one of the valued employees must also be recognized. The growth initiatives that the minister Downey mentioned are important factors that contribute to the strength of the company.

These along with improvements in productivity, expense control, inventory management and return factor improvements lead the board of directors to a strong feeling of confidence in the future growth of the company. We are confident that A.E. McKenzie Co. Ltd. will become an even stronger player in both the packet seed and the direct-mail markets and will provide employment, economic and career opportunities in Brandon and surrounding area that will be a continuing, important asset to all Manitobans.

The board would like to take this opportunity to thank the minister for his support and guidance and to thank the loyal and committed employees for a job well done. Thank you.

\* (1020)

**Mr. Chairperson:** Thank you.

**Mr. Leonard Evans:** I would like to thank Mr. Smeltz for those opening remarks. I wonder if the chairman, or perhaps the minister, or the Chair could indicate who the board members now are. Who are the people who are on the board of McKenzie?

**Mr. Downey:** I will do my best, Mr. Chairperson. We have Mr. Dale Smeltz, who is the chairman; we have Vice-Chair Sharon Taylor; Marg Tycholls.

**Mr. Leonard Evans:** Mr. Chairperson, I wonder if the minister could indicate where the individuals are from—what town or city?

**Mr. Downey:** Sure can. Mr. Chairperson, we have Marg Tycholls from Dauphin; Vice-Chair Sharon Taylor from Oak Lake; C.K. Williamson from Roseland, or Brandon—his home is at Roseland;

Mr. David Blake, who lives in Minnedosa; Mr. Charlie Townsend, who is from Cypress River; Kathleen Roberts, who is the daughter of Mr. McKenzie; we have Manse Binkley who is formerly, has been in Brandon, and has recently, I believe, moved to B.C., just in the process of doing that, I understand; Allan Lauder who is an employee rep; and Janie Humenluk, who is also an employee rep. If I have missed anyone, I apologize for that, but I think that pretty well covers it. If there are further, I will let the member know after I—oh, yes, I am sorry, Belle McGuckin from Headingley is as well a member of that board.

**Mr. Leonard Evans:** Mr. Chairperson, Mr. Smeltz, I have forgotten where he is from.

**Mr. Chairperson:** He is from Cromer.

**Mr. Leonard Evans:** Okay, Cromer, I will not say anything. What is the general background of the members of the board? I do not want to get into a lot of detail, but are they there because they are representing different parts of the province, or do they have some particular interest in horticulture, or do they have some particular interest in finance, or corporation experience, or whatever?

**Mr. Downey:** Yes, Mr. Chairperson, the employees who represent the employee appointees are representatives of the workers who have shown a keen interest, as all members do, but the employees are dedicated employees and were selected on the basis of dedication and knowledge and ability to help direct the company.

The backgrounds of the rest of the individuals, without getting into specifics—if the member wants me to, I can go through all the resumes of the individuals—but they are basically business-oriented people, farm-related people involved in seed-related activities as they relate to coarse grain production, restauranting, car business or automobile business. You know, if the member wants me to go through specifically each one of them, I can. I do not know whether that is important to him. If it is, I am prepared to do so. Generally, Mr. Chairperson, they are business-minded people, competent, understand selling and the seed business.

Of course, that is the policy side of it. We have very capable management who make the day-to-day decisions as they relate to the management decisions.

**Mr. Leonard Evans:** I am not suggesting any criticism of any members of the board; I am just wondering. I would like to get this update. I know from time to time that we get press releases of who is going on, and who is going off, and that sort thing.

I had specifically wondered about the employee representatives: Are they still elected by a vote of the employees?

**Mr. Downey:** No, Mr. Chairperson.

\* (1025)

**Mr. Leonard Evans:** I wonder if the minister could explain why there is this kind of a change, because this was instituted some years ago.

Usually, when you have worker representation, it is based on the vote and the collective decision of the employees, however it is done, however the vote is taken, however it is organized. It is usually people that the employees would like to have represent them. It is argued that, if they are not elected by the people, then they are not truly employee representatives, even though they are employees. They are employees, but they are not really employee representatives if they are not elected, just as an MLA is not a representative of the people if the people in that constituency do not elect that MLA. I was wondering, what is the explanation here?

**Mr. Downey:** Mr. Chairperson, there has been no change of policy; there has never been, to my knowledge, any election of an individual by the membership.

**Mr. Leonard Evans:** Excuse me. Perhaps I should have brought it up, but I recall receiving a letter from the union president, Mr. Bernard Christophe, complaining about the lack of just this very point, the inability—that the employees did not have an opportunity through their union, I guess, to choose their representatives. This is why I say, I thought there was this procedure, however it worked.

I am not familiar with the way it worked, but that there some kind of provision where the workers would have the right to vote and elect their representatives. There was this letter from the union president complaining about this, so there must have been a change in the policy.

**Mr. Downey:** Mr. Chairperson, I guess what the member is referring to is that the union, or the membership, has the opportunity to put names

forward, but it is at the discretion of the minister as to who is selected from the workers within the company. That is the practice which has been carried out.

**Mr. Leonard Evans:** Well, were the names of—is it Allan Lauder and Janie Humenluk? Were those names submitted to the management, or to the minister, by the employees?

**Mr. Downey:** No.

**Mr. Leonard Evans:** Mr. Chairperson, I do not understand the minister's previous point then. How can they be considered to be representing the workers if they were not at least put on a list submitted by the workers for the minister to decide?

**Mr. Downey:** Mr. Chairperson, as far as I am concerned, the minister has the discretion of appointing whom he or she feels they would like to have on the board, and that is the process which has been carried out. I do not think it has been any different for many, many years.

**Mr. Leonard Evans:** I beg to differ with the minister. I believe that there was. I mean, why would Mr. Christophe and the union become very exercised about this? It seemed to me, this is a couple of years ago, that—[interjection]

**Floor Comment:** Mr. Christophe does not appoint the board of directors.

**Mr. Leonard Evans:** No, Mr. Christophe does not appoint the board of directors. There was a method of election, a democratic election, I believe, whereby the employees recommended to the government, to the minister, to the board, whom they would like as their representatives. There has been a change, it would seem to me, in the policy.

\* (1030)

**Mr. Downey:** No, Mr. Chairperson, as far as I am concerned, the previous government could have had—Mr. Christophe could have recommended whom Mr. Christophe or the union wanted. The government of the day, the minister of the day, had the option of either selecting those individuals or someone else, so the policy has not changed.

The policy is as it was for a long time. It is just the manner in which the NDP, or under his government, were prepared to accept the names if it was Bernie Christophe telling them whom Mr. Christophe wanted on there. If he wanted to yield to that, that is fine. I am saying that the process has not changed. The names can come forward. The

selection of individuals still lies with the government and the minister. We have gone through this debate sometime in the last few years over this same subject. My policy has not changed.

If we get competent, capable employees, which I understand the workers are satisfied with their representation, I do not see what the member has got a problem with. If he has a problem with the employees that I have appointed, let him say so, that he does not particularly like Allan Lauder and Janie Humenluk. If that is what he is saying, that those individuals are not representing the workers properly, then I would appreciate it if he would come straightforward and say so.

**Mr. Leonard Evans:** I am sure they are fine individuals. I have no difficulty with the individuals. I am not talking about the individuals. I am talking about the process. I am talking about the democratic process and the fact is that there was a procedure whereby, not Mr. Christophe but the workers had votes. They voted democratically like we vote, hopefully in provincial elections, democratically.

The workers together voted. The workers voted and put up the names. In this case Mr.—

### Point of Order

**Hon. Harry Enns (Minister of Natural Resources):** I appreciate that Mr. Evans has every right to engage in whatever line of questioning that he chooses, but it certainly was my hope and I know that of other members of the committee to hear directly from the people that are operating the McKenzie Seeds. We only have one opportunity a year to hear from them directly as to the business plan that brought about remarkable performance of that company. We would like to hear about plans for the future; we would like to hear whatever other business information the directors, the presidents of McKenzie Seeds can provide this committee.

That is really what certainly I am here for. I would ask the honourable member for Brandon East (Mr. Leonard Evans) to take that into consideration as we now move on to 10:30, you know, having dealt with half an hour as to the problems that Mr. Evans has as to whom the minister decides to elect to the board.

**Mr. Chairperson:** Thank you. I do not believe you had a point of order. I would remind all members of

the committee to please concentrate on the annual report that is under discussion.

\* \* \*

**Mr. Leonard Evans:** Yes, well, I note we did not have an opportunity to discuss the 1990 report previously. Now we have two reports, 1990 and 1991, so it has been a while since we have been together to ask some of these questions. I think board membership is vital, because I think the board plays a very key role, obviously. There was a procedure set up whereby the workers democratically chose their nominees.

Ultimately it is the government's responsibility, obviously. I am not saying that. The minister has to make a decision, but you cannot, I would suggest, Mr. Chairperson, you cannot state that these are employee representatives if they are not elected.

It is like the Lieutenant-Governor appointing any person, let us say, to use an analogy, that you will be the MLA for Virden because we think you are a great person. You will be the MLA for Virden because you live there and you are representing those people, but you are only a representative of Virden if you are elected by the people of Virden.

I say these workers, if they are not elected and I am sure they are fine people. I have no complaints with them. In fact, I do not believe I know them. I may have run across them in Brandon sometime but I do not recall. At any rate, I am sure they are very fine persons and they are doing a great job, but you cannot pretend that they are worker representatives if the workers do not democratically nominate them, at least nominate them.

**Mr. Chairperson:** Thank you. Mr. Sveinson, did you have a comment on the same topic?

**Mr. Ben Sveinson (La Verendrye):** The question is simply, do representatives work at McKenzie Seed?

**Mr. Downey:** Yes.

**Mr. Sveinson:** I do not see the problem then.

**Mr. Leonard Evans:** I wonder if the management then could explain to us, go through the statement of the—oh, yes, before I get to that, I wonder if the minister or Mr. West could give us an outline of the management plan. I know we have Mr. Robinson and Mr. West with us, of management, but could he tell this committee, which represents the taxpayers and the shareholders of this company, what is the

organization of the senior management in the company now?

I ask that, Mr. Chairperson, just as a matter of explanation. Many annual reports of our Crown companies actually provide that information. If you look at Hydro, Autopac, Telephones, et cetera, this information is provided. Also, I might add, they show you who is the chair of the board, who are the members of the board, and so on. It might be a good idea for future reports to show that and then members do not have to ask it, it is there, more or less up to date.

Similarly, with the plan of the company, you get a scale, you get a diagram, and it shows you which vice-presidents have which responsibilities, et cetera. I wondered if we could take a few minutes to hear from Mr. West as to who are the senior management and how do they relate to one another?

**Mr. Ray West (President and Chief Executive Officer, A.E. McKenzie Co. Ltd.):** The senior management of the company consists of four vice-presidents reporting to the president and CEO, which is myself. We have two vice-presidents in the marketing area. One is in consumer products marketing; his name is John Allen. Consumer products marketing means marketing to the retail stores like K Mart and Woolco and Canadian Tire and places like that.

We also have a vice-president of direct marketing, and his name is Lawrence Grodecki. Lawrence is in charge of the direct marketing division, which is McFayden and McConnell, and they sell by mail order. We have Ken Robinson, of course, who is the financial officer of the company, and he is with us today. The other vice-president of the company is Bruce Braaten. Bruce is in charge of the production facilities and controls in Brandon. Most of the vice-presidents have been with the company now for several years, I would think most of them at least five, and are all doing an excellent job in their given areas.

To comment further on the organizational structure, I would be very, very happy next time to put that into the material that is sent to you. We have all that and we would be happy to do that for you.

**Mr. Leonard Evans:** How does the company break down from here? There is a president, there are four vice-presidents, and then what is

the—without going into a lot of detail, do you have a level of managers under this?

**Mr. West:** I am not sure of the number of managers, but for example in the consumer products area, we probably have about five or six managers reporting to John Allen, who is the vice-president in that area.

In Ken's area, we probably have about four; in Bruce's area, I think there is one; and in Lawrence's area, I believe there are three.

**Mr. Leonard Evans:** Of the staff—

**Mr. West:** I left out a very important segment, and that is our sales force. We have five regional sales managers and a national sales manager, and that is very important.

**Mr. Downey:** It might be helpful for the member, there have not been any major changes in that whole structure in a number of years, so the member would be familiar with it probably from his term as being in government. Is that correct?

**Mr. West:** The only thing that has been major in recent years has been the growth of our direct marketing division, which had a rapid growth. The structure is the same.

**Mr. Leonard Evans:** The question of the sales force, you have five regional managers. Where are they located now?

**Mr. West:** The regional managers are located in Calgary, in Toronto and in Montreal. In Toronto, there are two of them.

**Mr. Leonard Evans:** That adds up to four.

**Mr. West:** Vancouver; there is Calgary—

**Mr. Leonard Evans:** One in Calgary, two in Toronto, one in Montreal—that is four. Is there one in the Atlantic region?

**Mr. West:** No, not a sales manager. There are only four.

**Mr. Leonard Evans:** The national sales manager, does he reside in Brandon or is he in Toronto?

**Mr. West:** He resides in Toronto. That is important because that is where most of the major business is brought, from Toronto.

\* (1040)

**Mr. Leonard Evans:** This is what a lot of people in the province appreciate, that this is truly a national company and the bulk of your sales are outside of Manitoba. I was going to ask you—this led me into

this question on sales—what percentage is outside of Manitoba now, and could you break it down by region—just roughly. I am not asking for the last percentage detail.

**Mr. West:** Over 90 percent of our sales are outside of the province of Manitoba and, unfortunately, I have not got the figures with me, but I will be happy to provide them to the representative from Brandon East (Mr. Leonard Evans).

**Mr. Leonard Evans:** Roughly what percentage would be sold in central Canada? By central I mean Ontario and Quebec.

**Mr. West:** About two-thirds.

**Mr. Leonard Evans:** I notice on your packages that they are bilingual. They are in two languages because you are selling coast to coast and I was just going to ask you, how are the sales in Quebec? Is that a strong market for you?

**Mr. West:** Quebec is a very strong market for us. We have very little competition in that marketplace.

**Mr. Leonard Evans:** Looking at the 1990 report, can the president take us through the income statement? For instance, the year ending October 31, 1990, it shows sales of \$15.45 million compared to \$14 million last year, and so on.

Could the management, Mr. Chairperson, take us through this, just explaining why one figure is up or another figure is down, just generally? Sales are obviously up by a percentage or so. I cannot figure that out just off here without a calculator, but obviously sales are up. Cost of sales is up as well but to a lesser amount, so that the gross profit is up by around \$800,000 or \$900,000. I wondered if the president could take us through this?

**Mr. West:** The actual sales increases were \$1,360,000, and that was attributable to packet seeds, about \$670,000. Spring and fall flower bulbs were up about \$300,000 and the mail-order area was up \$670,000, some of which was attributable to our first-year entry into the United States.

**Mr. Leonard Evans:** If I could just interject then. The bulk of the growth is in the direct-market sales?

**Floor Answer:** It was \$672,000 in direct-market increases.

**Mr. Leonard Evans:** Between '89 and '90?

**Floor Answer:** That is correct.

**Mr. Leonard Evans:** A large part of that, Mr. Chairperson—I would like to ask the president, Mr.

West—was sales, direct sales, to the United States, that is, catalogue sales to the United States?

**Mr. West:** Yes, actually \$246,000 of that was for United States sales. Canadian sales had an increase of \$420,000.

**Mr. Leonard Evans:** As a point then, just to clarify from Mr. West, there are no over-the-counter sales or sales through stores in the United States at the present time? It is all direct or all catalogue sales, is that right?

**Mr. West:** It is all direct marketing, catalogue.

**Mr. Leonard Evans:** Just as an aside, I would like to ask the president also, what is this name of the catalogue? Is it the same name that we have or do you have a special name for the American market?

**Mr. West:** The same name, it is called McFayden.

**Mr. Leonard Evans:** The president was going through—I thought we would go through the income statement. Just very briefly, tell us why one figure is up and the other one may be down, or whatever. The cost of sales have gone up as well.

**Mr. West:** That is correct. The cost of sales were up about \$700,000 and, of course, a lot of that is just attributable to the increase in sales. The operating expenses were also up about \$600,000, about \$350,000 of which was for the first-year entry into the United States.

**Mr. Leonard Evans:** I do not want to jump to the next report but the cost of doing business in the United States would be less, relatively speaking, this year compared to the last year, I would presume.

**Mr. West:** When we entered into the United States marketplace, we did not calculate or expect to make a profit in the first year, and we did not. We knew we were going to have to subsidize the entry into that market, because it is a direct marketing business and you have to spend money building your house list. So it was fully anticipated that we would lose money the first year in the United States and we did.

The second year into the United States—which is the 1991 report, which will come later, I guess—we hope to come close to break-even, and we came fairly close to achieving that. We are within a small amount of a loss. We actually lost money again but not nearly the same amount of money.

The third year, which is the year we are just going into now, we expect to make money in the United

States. Our sales are good, and we fully expect to make a profit the third year into that market. That was basically our plan from the outset.

**Mr. Leonard Evans:** Mr. Chairperson, through you, how much did the company lose the first year in its American market entry?

**Mr. West:** Approximately \$220,000.

**Mr. Leonard Evans:** I just observe, it is quite normal for business to take a good three years before they start to see black figures instead of red. It is sort of almost a rule of thumb, you need about three years in any new venture or new business.

At any rate, what is the other income?

**Mr. West:** The other income is for things like the list that we rent. We have a list of a million names which we will rent to other people who want to mail to our customers, something which is along the same kinds of things that they might use for gardening or whatever, and so we charge them for that.

**Mr. Ken Robinson (Vice-President of Finance, A.E. McKenzie Co. Ltd.):** Mr. Chairperson, the balance of that line represents interest that we charge our customers on overdue accounts.

**Mr. Leonard Evans:** Is the company experiencing much difficulty in collecting overdue accounts? Is that a big problem area? Is there a lot of hassle on that, Mr. Chairperson?

**Mr. West:** In 1991, we had—and this was unusual, we do not usually experience very much—but we had one major account that went down. We had receivables of about \$180,000. That was a unique situation. For the most part, for all the business we are doing, we have very, very small receivable problems or difficulties.

**Mr. Leonard Evans:** I was wondering, Mr. Chairperson, because a lot of companies, unfortunately too many companies, you hear of having difficulties these days. Some are going bankrupt. We even hear—was it Bargain Harold's? It was in the paper.

**Floor Comment:** Too many bargains.

**Mr. Leonard Evans:** Yes, too many bargains, right. At any rate, that is fine.

I have some other questions, but I understand, and believe, the Liberal critic had a number of questions, and I do not want to—I will give up my spot here. I have quite a few others, but I would like to defer to my colleague for Inkster (Mr. Lamoureux).

**Mr. Lamoureux:** Mr. Chairperson, I thank the member for Brandon (Mr. Leonard Evans). I had a couple of questions. What I will do is, I will use the two reports as one. Then, hopefully, you will be able to accommodate me in that fashion.

I know McKenzie Seeds is looking at expanding its distribution in Brandon, the building of a new plant. I believe it was for this year, 1992. I am wondering if the board is looking at expanding the manufacturing, or is there anything else in the upcoming year or two regarding the manufacturing, not only the distribution?

\* (1050)

**Mr. Downey:** Mr. Chairperson, the management can respond to it. The member did refer to, I think, a warehousing plan that is in the books. We are looking for any opportunities that we can to further enhance job opportunities and expansion in the Westman area, and so there may be some more specific things.

Again, the member has to appreciate the need that, when companies are in the private marketplace, we do not want to overdisclose what the plans are. It is our plan to continue to make sure McKenzie stays strong and expands job opportunities and other alternatives in that area. You may want to further add, Ray or Dale, to that.

**Mr. Smeltz:** I would just mention that it is part of the board's strategic plan, along with management, to make sure the company is doing things in the most efficient manner possible.

One of the things which we have found that would bring some efficiencies to the operation was to build our own distribution centre. That is the plan which the member is talking about. I am sure that a distribution centre will be built in Brandon in 1992.

**Mr. Lamoureux:** How many direct or indirect jobs—specifically, I guess, direct jobs—will be created from this new distribution centre?

**Mr. West:** Actually, we will not be creating any jobs because of the distribution centre. We are just simply going from a leased facility to a facility that we are going to own.

**Mr. Lamoureux:** It is not really a new or an expansion of sorts, just a new building?

**Mr. West:** Yes, it is just a new distribution centre. Obviously there will be construction jobs, but they are not McKenzie jobs.

**Mr. Lamoureux:** There will be some indirect jobs as a result but no direct—what is the current employment over at McKenzie Seed now?

**Mr. West:** Mr. Chairperson, it is approximately the equivalent of 175 full-time positions. Now, that does not mean we have 175 full-time jobs, because we do not. We have about 115 or so and the rest of the jobs are made up by—because we are in a seasonal business we have lots of part-time people, but when you put them all together it makes the equivalent of 175 jobs.

**Mr. Lamoureux:** Is this a gradual increase in staff that we have experienced over the last number of years?

**Mr. West:** Yes, it is. We acquired a company called McConnell in 1991. We transferred that operation to Brandon and that created job opportunities. Also, our expansion into the United States has created job opportunities, because all of that fulfillment for the seeds and so on are done out of Brandon.

**Mr. Lamoureux:** I noticed in the '91 annual report there were a couple of other companies, Canada Seeds Limited and Steele Briggs Limited, that McKenzie Seed amalgamated with. Were there any benefits to doing that in terms of jobs?

**Mr. West:** Those are companies that were acquired many, many years ago. They are not recent acquisitions, and they have always been, in the last 15 or 20 years or whatever, part of the McKenzie organization. They are wholly owned subsidiaries of McKenzie.

**Mr. Lamoureux:** I would assume that McKenzie Seed is continuously modernizing their industry, if you will, or their plant. I would ask in terms of how we compete with, specifically I guess, other firms that are in the same type of business? Are we at the top end, middle? What are we like in terms of modernization?

**Mr. West:** Mr. Chairperson, I feel McKenzie is more or less at the leading edge of the industry, but the industry is not very advanced, so to be at the leading edge of it is not necessarily that great. We have a lot of things we want to do, for example, improve computer technology and things of that nature.

We are fortunate inasmuch as the industry, all throughout the world, has been pretty much in the doldrums and had difficult times. Now that McKenzie is kind of getting its house in order, and

we are starting to improve, the organization is much better today than it was five years ago, and I know it is going to be much better five years from now than it was today. That is because of the people who are there, who are doing a very excellent job for the company. I would say that we have got some time to make these things happen, but we definitely want to look at additional improvements in operation, productivity, technology and things of that nature.

**Mr. Lamoureux:** Picking up the mail-order division out in Ontario, no doubt it was in order to try to get more of the market in Ontario, do we get additional markets or are you looking at additional markets in Quebec, or do you see more of the potential growth south of the border as opposed to within Canada?

**Mr. West:** As the minister said, both. We are very fortunate that McKenzie has some excellent opportunities ahead of us. We have got many, many things that could be good for growth opportunities both for job opportunities, sales, market share and profits.

**Mr. Lamoureux:** How does McKenzie Seed find it for competing in the United States? The member from Brandon made reference to the first couple of years and yourself in terms of being losses. In the long run, can we compete with the American firms?

**Mr. West:** Mr. Chairperson, I am sure we can. It is a much more competitive environment than the Canadian marketplace. There are a whole lot more people in it, and they are a lot more aggressive than some of our Canadian competition. I am sure that we will be fine. We had to build a base. We have got that now. We have got a foothold, and I think it is very important for our company to have that foothold because I believe in the next decade there will be a lot more trading on a north-south basis. McKenzie has to be positioned to take advantage of that. There is a learning curve in going into these new markets, and McKenzie has gone through its learning curve, and I think that has helped us a lot on any expansion opportunities for south of the border when we want to address that.

**Mr. Lamoureux:** Just to end, Mr. Chairperson, I would ask if the chairperson can possibly provide both opposition parties with a copy of what the actual percentages are, where our sales are in fact going, in particular, and I am not as much interested across Canada as the U.S. versus Canada, if we are at 10, 15, 20 percent.

**Mr. Downey:** Mr. Chairperson, I would hope the member appreciates that we are in the marketplace. We do have to keep certain marketing strategies and information that is pertinent to the well-being of McKenzie Seeds, and we are prepared to give him as much information as we can as it relates to the overall operations, but I think we have to be a little cautious in asking management to disclose their marketing strategies and percentages of markets and everything else that well may put McKenzie in a disadvantage publicly. I hope he does not ask for something that would in fact put McKenzie in a vulnerable position with the competitor.

**Mr. Lamoureux:** Mr. Chairperson, the minister would be fully aware of debates that go on inside the Chamber, and I only go to one of the most controversial debates of free trade. I think that it is imperative for all political parties to be aware of how we can compete with the United States. If in fact we find that the United States is too tough for us to compete in this particular industry, I would think that it would be in our interest to know that. I would think that if in fact there is, by looking at a percentage, for example, of McKenzie Seeds sales and a hypothetical of 10 percent this year and turn out to be 5 percent next year, it tells at the very least, the opposition parties—it says a lot in terms of the percentage of sales and the way in which they are marketing and so forth.

I would suggest that there is some merit, and I would not be overly concerned about giving up the secrets from the corporation. It is not like we are specifically asking how many sales are going into North Dakota, how many sales are going into New York or in the provinces of Ontario or Quebec or anything of that nature? We are just talking about the two, the Canada and the U.S., and would suggest if the minister wants to be firm on the position of not releasing figures of that nature, I guess we will have to accept that. I would encourage the minister that in fact just saying the percentage of sales going to the U.S., so that in future committee meetings we can find out if there are some net benefits to the free trade that can be somewhat cleared out from the marketing, because there are obviously other factors that have to be taken into account. All three political parties would benefit from that sort of information.

\* (1100)

**Mr. Downey:** Mr. Chairperson, I appreciate the member's comments. I think he did hear the

manager say, though, we can compete in the United States market and it is showing that we can. If there is additional information that would be helpful to either of the opposition parties, I would ask that he contact either management or the chairman of the board or myself to get that information, so that I am not asking management to disclose something that would put them in a difficult position. On the other hand, if there is information that we can get that would be helpful to the members, I will do so.

I do not want to put McKenzie in a vulnerable position as to making information that applies to their marketing strategy and where they are at into a difficult situation. I will co-operate to get him what information we can, and I think we have to remember the competitive market we are in, so I will attempt to get what he thinks he needs.

**Mr. Chairperson:** Pass?

**Mr. Lamoureux:** In response to the minister, really all I am looking for is just the percentage of sales to the United States.

**Mr. Chairperson:** Thank you. Pass?

**Mr. Leonard Evans:** I am sorry. I presume the member for Inkster is finished his line of questioning.

Just going back to the income statement in 1990 for the year ended October 31, 1990, we have a net income, otherwise known as profit I guess, of \$711,391. I note that on page 6 of the 1990 report there is an item called imputed cost information. This goes back, I presume, to the previous government when over \$12 million was invested in the company virtually by the previous government.

I do not know why this particular note is in here. It says, in accordance with the Minister of Finance, page 6 of 1990—and at the beginning of the year. I notice in some of the previous reports '87, '88, '89 that there is also this reference to imputed interest cost. It relates to an item amount of \$12,954,000 worth of shares outstanding. It shows for 1989 the government borrowing at an interest rate of 10.05. The borrowing cost is \$1.2 million, so that the government has undertaken that cost, which is legitimate because it is an investment by the government into an operation, and whenever you invest money there is a cost.

What I do not understand is how the shares go from \$12.1 million in 1989 to \$5.5 million in 1990. In other words, there was a write-down and there was a reference to this in the—this is a report that was issued for the years 1989, I guess, October 31,

1989, on page 5 of that report under item 7. There is a reference to the stated capital of Class B preferred shares as being reduced by \$6,638,912 and transferred to contributed surplus. The redemption value of these shares was reduced from \$1 per share to 72 cents per share. It then goes on to say that contributed surplus was reduced by \$6,638,912 and was applied against the deficit.

What I want to know very specifically is why did you write this down and what is the basis of it? It is like magic, suddenly instead of \$12 million, we have the \$5.5 million?

**Mr. Downey:** Mr. Chairperson, I will just make a brief comment, then Ken Robinson can maybe fill it in a little bit more. It is my understanding that the previous administration wrote down that figure, and we discovered it when we got into office and started declaring it in our report.

**Mr. Leonard Evans:** I am referring to the imputed interest cost.

**Mr. Downey:** That was a question of this committee I believe several years ago. There was a request to this committee that that be in fact a part of the statement, that imputed interest cost be part of it, but the write-down took place during his government's administration, identified during our term, beginning of the term and reported as same. Mr. Robinson may have some more detail to add to it, but if I understand it in the general sense that is basically it.

**Mr. Chairperson:** Mr. Robinson, did you wish to make a comment?

**Mr. Robinson:** Yes, that is correct. The write-down was recorded during the prior government on the government books and never reflected on the corporation's books until 1990.

**Mr. Leonard Evans:** Excuse me. Just to interject the question, by the write-down you mean we are talking now specifically about the Class B preferred shares going from \$7.1 million to \$515,000. Is that what we are talking about?

**Mr. Robinson:** Yes. That is correct. The \$12,135,000 was the gross amount of the investment and did not take into consideration the accumulated deficit that the company had on its books going back to 1982, 1983 periods. Simply, the prior government position was that the corporation was not worth \$12 million, did not have an equity of \$12 million, because of the carrying of a \$6 million or \$7 million deficit. The net investment

or the net value of the company's equity was approximately \$6 million, or the net of the \$12 million and the \$6 million deficit—simply, to move the accounts around to reflect the exact value of the equity that the government held.

**Mr. Leonard Evans:** I thank Mr. Robinson for that information, but what it means is that, in 1989—as shown in this October 31, 1990, statement, on page 6—that the borrowing cost to the government is \$1.2 million. By 1990, it is shown as \$584,000. I do not see how the borrowing cost could be reduced because it was still a borrowed amount, so I do not understand that, Mr. Chairperson.

**Mr. Robinson:** Mr. Chairperson, the chart that you have on page 6 simply looks at the value of the shares that are left after the write-down of the preferred Bs from, I believe, \$1 per share to 7.2 cents. That is how the chart is made up. It really looks at the net investment that the government has in McKenzie after you consider prior years' losses.

**Mr. Leonard Evans:** In effect, this has simply been written off. The government no longer considers the borrowing cost to be in the order of \$1.2 million but half of that amount or less than half of that amount? Is that correct? Sorry, I do not want to put words into anyone's mouth. I am just trying to get an explanation, because it is—The member for Lakeside (Mr. Enns) may understand it, but it can be confusing.

**Mr. Robinson:** That is the correct statement, he just made.

**Mr. Leonard Evans:** Based on that, this was something new. I guess it was Mr. Manness, the Minister of Finance, who wanted to have this information anyway, because I do not recall that being in there previously—

**Floor Comment:** Ransom.

**Mr. Leonard Evans:** Or Mr. Ransom. Mr. Ransom? Because what that means is that, in 1989, instead of a profit of \$416,000, your company, in terms of the government, was losing \$800,000—from the government perspective, not from the company's perspective.

**Floor Comment:** That is why it is there.

**Mr. Leonard Evans:** Yes, but 1990, the profit, the net income goes up to \$711,000, but the borrowing cost, having considered this, has been written down or written off, is reduced to \$584,000.

At any rate, I noticed that, and I wondered why this was not carried on in the—and I can hold that until the 1991 report, but there is no reference to this in the 1991 report. We could ask at that time why there is no reference to that in the 1991 report. This was not my idea to put it in. It is the government's decision to put it in. Now they have taken it out. [interjection] Is it there? I am sorry. Page 6. Okay, thank you. Well, I did not notice it. Thanks.

Mr. Chairperson, I would like to ask some questions relating to the Consolidated Statement of Changes in Financial Position. What this does—and I would like to ask the management of this—what does this statement really tell us? Is it telling us how the actual cash has been dispensed with or disposed of throughout the year?

\* (1110)

**Mr. Robinson:** Basically, this traces, starting with the net income for one year through to the net income of the next year, all of the things that have affected net income and looks at changes in receivables, inventories, prepaids, fixed assets, all of the various categories on the balance sheet.

**Mr. Leonard Evans:** I am sorry, I did not hear the last statement.

**Mr. Robinson:** It traces all of the various categories on the balance sheet, the changes that have occurred from one year to the next.

**Mr. Leonard Evans:** I notice what we have here is a consolidated accounts including all the subsidiaries and those that have been absorbed in the company—Steele Briggs, McFayden, Pike and Company, and Canada Seeds. On the matter of your U.S. sales, and again I guess in this year—this was the first year that you were entered into the U.S. sales. Is that correct?—the 1990 statement. So the loss shown on the U.S. sales is simply, I guess it is, well it is buried in there, it is shown as expenses that are higher than would have been otherwise, by whatever amount.

**Mr. West:** Had we not gone into the United States our profits would have been considerably higher.

**Mr. Leonard Evans:** Mr. Chairperson, I wanted to clarify with Mr. West with regard to the move into the United States. Members of the committee mentioned free trade, and everyone is interested in the trading patterns between Canada and the United States, but I gathered, and I just want to get this confirmed, that the tariff on package seeds into the United States is relatively insignificant as a

percentage of the value of the package of seeds. So the removal of a tariff really has no bearing on McKenzie's decision to enter the United States market.

**Mr. West:** Tariffs were not significant.

**Mr. Leonard Evans:** Mr. Chairperson, entry of the Canadian-American Free Trade Agreement had no bearing as such on this particular move?

**Mr. West:** I would say that it did a couple of things. It got the company thinking about this aspect of trading into the United States and also the United States trading into Canada, because we think that is possibly where our biggest competition can come from. Over the ten years that this is to be introduced, the regulations are to be standardized.

We are seeing some of that now. It is very slow, but we are seeing some of it. Of course, with standardized regulations, then the trading become much easier.

**Mr. Leonard Evans:** I have a lot of detailed questions to ask about the operations, but I think I could ask them on the 1991 report, so I would be prepared to pass the 1990 report and go onto the 1991 report.

**Mr. Chairperson:** The annual report for A.E. McKenzie Company Limited, for the fiscal year ending October 31, 1990—pass.

The committee shall now consider the Annual Report for A.E. McKenzie Company Limited for the fiscal year ending October 1, 1991.

**Mr. Leonard Evans:** Again, I wonder if the management could take us through the income statement briefly, explaining where the increases or decreases are and why they have occurred. There is a substantial increase in sales, it is about \$3 million, which is very encouraging. The American market is a bit of that, but that is only a tiny amount. I would just like some explanation as to the basis of these improved sales.

**Mr. West:** Basically, the acquisition of McConnell's had an increase of about \$3 million in sales—\$2,892,000. That was a lot of it. Also, the packet seeds had a big increase, almost \$700,000. For the first time in many, many years ever, the McFayden mail order softened a bit in 1991. We think we know the reasons for that, such as the introduction of the GST that came in on January 1 and the Gulf War that was raging in January and February.

The recession was big, and it was not just McFayden. All mail-order companies throughout North America had a drop in sales during that period.

**Mr. Leonard Evans:** I was wondering whether the recession might have had some bearing on the sales—in other words, people having lost their job, having lower incomes, doing more home gardening and so on, in order to raise their own vegetables.

**Mr. West:** We think the recession had a bearing on it, because I think people were hanging on to their money a little longer. We think what happened was that they still had to garden, and they wanted to garden because of the economy and other things. They simply went to the stores where McKenzie Seeds are in.

We have 70 percent of that marketplace throughout Canada. We were the beneficiary of all the mail-order companies that had a soft January and February.

**Mr. Leonard Evans:** Could the president tell us a bit more about McConnell's? Where is it located? Are they essentially into direct marketing, or are they packaged seeds that are sold over the counter? I am not familiar with that.

**Mr. West:** McConnell is a mail-order company. It was located in Port Burwell, Ontario, which is just outside of London, Ontario, but it has now all been transferred to Brandon. All the operation is run out of Brandon now. They simply sell by catalogue and by a little credit card insert that they put in, Sears credit cards. It is a mail-order business, and they only sell nursery and plant material like perennials and things of that nature. They do not sell seeds.

**Mr. Leonard Evans:** I am glad to hear Mr. West say, if I heard him correctly, that McKenzie Seeds has 70 percent of the packaged seed market in Canada, which is quite significant. In other words, I guess really, the only truly national packaged seed company in this country. Is that correct?

**Mr. West:** Yes.

**Mr. Leonard Evans:** Looking again at your sales, the president may have mentioned it, but I may have missed it, what percentage of your total revenue comes from direct marketing as opposed to the over-the-counter, if I can use that term, store sales?

**Mr. West:** Approximately 35 percent.

**Mr. Leonard Evans:** Thirty-five percent of the total sales come from direct marketing, from the catalogues.

Just a bit of an aside, Mr. Chairperson, because every once in a while I have heard the odd criticism. People complain that the seeds do not grow or something is wrong. Do you keep track of these complaints and how do you cope with that?

That is very serious because if somebody is not satisfied with their order, and I know certain MLAs here use it, names of whom will not be mentioned, who have bought. One, in particular, was very disappointed because some of the seed did not germinate.

**Mr. West:** Mr. Chairperson, the quality of the product that we sell is extremely important, because we have to do a good service and provide a good product for our customers or we cannot remain in business. We take that very seriously. The quality of the company and the control of the quality and the testing of it has never been better handled than it is today. It is improving each and every year. We are getting much, much better control on the quality aspect of our product and our services. We think that we are now at the leading edge of the industry.

It does not mean that we are not without complaints. We do have some. Obviously, they are fully recorded and computerized. We can tell exactly how many came in for what product, at what time, from what locations, and so on.

\* (1120)

I would just advise the member for Brandon East (Mr. Leonard Evans) that we really do not receive very many complaints. On the amount of seeds that we sell and the amount of product that we sell our complaints are very, very tiny.

As a percentage of sales, I do not think on seeds and hard goods and things of that nature, it amounts to less than 1 percent of our total sales. On things that are a little bit more perishable, like bulbs and perennials and things of that nature, I think it amounts to about 3 percent of our total sales, which is not a significant amount. Now, obviously, we would like it to be nothing. We are working toward that goal, and we have very high standards in place.

**Mr. Leonard Evans:** Mr. Chairperson, the committee should be very encouraged with those remarks made by Mr. West. I am pleased that the problem is not major. It is a very minor problem. I

sort of suspected it was, but I just wanted to get an assessment of it.

In the mail order itself, of course, and it would have been useful if the—I have seen catalogues in the past—but it would have been useful maybe for some of the other members of the committee to note the kind of products that the company is offering through the catalogue. I do know that besides packaged seeds, of course, the president mentioned bulbs, for instance, and some other kinds of plant material. You also sell various items related to horticulture, related to gardening, various tools and that sort of thing. I was wondering if you could tell the committee, of the total sales through the mail order, what percentage is from seeds, bulbs and plant material as opposed, if that is a correct term, to nonbotanical material, the paraphernalia and all that?

**Mr. West:** Mr. Chairperson, this would be a guess, but my guess would be that over 90 percent of our sales through the catalogue would be for seeds and garden material like plants and bulbs and things of that nature, and that probably 10 percent or less would be for garden gadgets and things of that nature.

**Mr. Leonard Evans:** Is it useful, therefore, to continue to offer those garden gadgets, as the president referred?

**Mr. West:** We do a very elaborate cost analysis on space, contribution and so on, and the only way that a product can remain in our catalogue is if it is paying for its space. If it is not paying for its space, it has to go.

**Mr. Leonard Evans:** In other words, Mr. Chairperson, the company does very carefully keep track of every item that you are selling and looking at—well, that is good to hear.

(Mr. Ben Sveinson, Acting Chairperson, in the Chair)

At any rate, does the president have any more comments to make on the income statement? We sort of got stuck up on the sales. This is on—[interjection] If it is good news, that is great.

**Mr. West:** Mr. Acting Chairperson, just like the minister said, I am delighted that we are now recording an income of over a million dollars. I think that is very significant, and I think that the company is gaining stability and is able to handle our situation much, much better today than we were a few years ago. We are getting stronger. The whole

organization is gaining momentum and strength each and every year. I think you will see the continuation of that.

The operating expenses obviously increased quite a bit, and the reason mostly for that is because of the McConnell operation. We took on McConnell's, and obviously we had to print catalogues and mail catalogues and so on, but that operation has been a very good acquisition for McKenzie.

**Mr. Leonard Evans:** Mr. Acting Chairperson, can the president indicate to the committee some type of breakdown of the sales, not the mail-order sales but the sales to the stores, or whatever term you use, the over-the-counter sales. What is the expression? What is the term used?

**Mr. West:** Mr. Acting Chairperson, it would just be sales that we generate through the consumer products area.

**Mr. Leonard Evans:** As opposed to what—

**Mr. West:** That would be what we call consumer products division. The other division, the mail-order division is called direct marketing, and the part we sell to retail stores we call consumer products marketing. It has about \$12 million—\$11,828,000 in sales.

**Mr. Leonard Evans:** My question was—it relates to an item that was discussed here a year or two ago. That is the large number of small stores, small outlets that do cost—in a way they are maybe not very profitable to handle. There was some argument, well, you should carry on selling through these smaller retail outlets, and I was just wondering, what is the situation now? I would imagine that the bulk of the \$11 million retail sales or consumer product sales are through the large department stores and the large chains. I am asking the question. I do not know.

**Mr. West:** Mr. Acting Chairperson, there is a significant amount that is sold through major chains, but I do not want the member to get the idea that any of these sales do not have a positive contribution from them. It is much like the question you asked about the catalogue. Do they have a positive contribution, those products in the catalogue? They did. Absolutely all of the accounts that we are dealing with, when we look at our cost and the contribution from them, they are contributing to the company's gross profits.

Of course, the gross profits have to look after things like operating expenses and so on. So without those, we would have a drop in gross contribution; we would also have a drop in sales. We would also be giving up market share, and we do not think that it is necessary to do that. We think that we can continue to serve those accounts and do it profitably.

**Mr. Leonard Evans:** Does the company have a term that it uses in referring to small buyers or consumers as opposed to the large consumers? I wonder if the president could tell us that.

**Mr. West:** Those would be called "independent accounts" as opposed to "chain accounts."

**Mr. Leonard Evans:** My question, then, is: What percentage of the total sales are a result of independent accounts?

**Mr. West:** I do not have the exact figures. I think it is about half.

**Mr. Robinson:** I think that is a correct answer. It is between 40 percent and 50 percent.

**Mr. Leonard Evans:** Just to clarify then, 40 percent to 50 percent of the total consumer product sales are through independent outlets. Is that correct?

**Mr. Robinson:** Yes, that is correct.

**Mr. Leonard Evans:** I am not wanting you to disclose trade secrets or anything, but could the president advise us of the number of chain accounts that the company has?

**Mr. West:** I am not sure of the exact number. For example, with Canadian Tire, they have about 500 locations, but it is one account.

**Mr. Leonard Evans:** This is exactly what I am talking about. Just roughly how many big accounts does the company have?

**Mr. West:** The chairperson said, all of them; that is correct. Every major of any significance at all deals with McKenzie.

**Mr. Leonard Evans:** That is interesting, because it seemed to me from the past this was a big worry, of American competition coming in, offering discounts to big chains such as Canadian Tire, Safeway or whatever and that it would be very difficult to compete, but apparently McKenzie has been successful in withstanding that.

Does the company now package seeds under other names? In other words, do you do packaging

for the chains based on their names. Sometimes you go to the "XYZ" chain store and you are buying "XYZ" packaged seeds, although they are packaged by McKenzie.

(Mr. Chairman in the Chair)

**Mr. West:** For the product that we are selling to the retail stores in Canada, we do not have any private label. Is that what you are asking?

**Mr. Leonard Evans:** A no-name brand type of thing.

**Mr. West:** Mr. Chairperson, we have some promotional brands that we use to go along and sell in conjunction with our regular ones, but they are our brands. They are not a promotional brand for—it is not private labelled material. We do package for one other seed company in Canada, a small regional competitor. It is profitable for us to do that, but we just sell it. We just package and sell that package to the regional competitor, and he in turn distributes it in his local marketplace. We are just doing that to get better economies of scale in our plant.

\* (1130)

**Mr. Leonard Evans:** I would like to ask the management of McKenzie, where do you see your biggest competition in terms of the consumer products division? Who are the more threatening competitors?

**Mr. West:** Mr. Chairperson, McKenzie in the last two or three years has been gaining market share from our competition here in Canada and we are continuing to do that. We have a lot excellent marketing programs and strategies and action plans, and we know we are out there winning the race.

That is indicated and evidenced by the way the sales have increased in the packet market, for example, for the last two years, 1990 and 1991. Put the two years together for packet seeds; it has been about \$1,300,000 in increased packet seed business, and that is important. That is one of the areas in which we have the highest degree of gross profit, and it is an area where we really want to go and get extra market share.

Competition obviously can come from south of the border, but they are going to find it very difficult to dislodge McKenzie. McKenzie is doing a much, much better job. We are looking after our customers. We are reliable. We are responsible.

We do not let people down. We have an excellent sales force. We are supporting them better with good computer technology, good production, good productivity. So, as we get stronger, it is going to be more and more difficult for competition to dislodge McKenzie.

**Mr. Leonard Evans:** Obviously, if you have 70 percent of the market, there is really no other, it would seem to me, national company competing with you. Your competition is with regional companies.

I guess my question then is, such to say, take Ontario, do you have strong regional competitors, for example?

**Mr. West:** We have a regional competitor in Ontario. It is called Ontario Seed. They are at Kitchener, Waterloo. They are not any bigger factor than any of the other regional competitors.

**Mr. Leonard Evans:** What about the Europeans? Do you have any European package seed competition?

**Mr. West:** Mr. Chairperson, there are no European companies of any significance marketing in Canada, other than the ones that we represent, Thompson and Morgan, for examples, Sementi Dotto and Royal Fleur.

**Mr. Chairperson:** Did the honourable Minister of Natural Resources (Mr. Enns) have a comment on the same subject?

**Mr. Enns:** Yes, Mr. Chairperson. Thank you.

I would like to indicate to the management of McKenzie Seed that I am an avid, lifelong gardener and have always used their product up in the Interlake on my farm, but I have always had a problem with the carrot seed. It is a very fine seed, difficult seed to plant properly.

I have to indicate to them that last year you lost me as a customer. I was persuaded by my colleague, the member for Portage, Mr. Connery, to try his carrot seed package which were encapsulated with little fertilizer balls. It is a white seed. It was considerably easier to seed properly in the proper spacing than your product.

I would like, as a matter of personal dedication to a business that all us Manitobans have a share in, to feel more comfortable, without any denigration of my colleague, Mr. Connery, in returning to the folds of McKenzie Seed in my seed purchasing in the spring. I wonder whether or not, in your

ever-improving research into technology, you look at innovative ways of making the seed, the product that you sell, more consumer friendly in that way, particularly for us amateur gardeners.

**Mr. West:** I am sorry that we lost you as a customer. I hope we will get you back.

To answer your question, yes, we do. We have a relatively new product and it is selling extremely well. You might like to try it. It is called seed tape. You just put the tape in the garden. The seeds are correctly spaced within the tape so you do not have to go through any thinning process.

**Mr. Enns:** I genuinely thank you, Mr. West, for that information. For those of my colleagues who have not tried sowing carrot seed on a windy spring day, bent over—and that gets harder as we get closer to that senior age that I am approaching. This kind of technological improvement, I am sure, will meet with considerable success, and I will certainly look for it on the shelves. Thank you.

**Mr. Leonard Evans:** I wonder if we could carry on with discussion of the general sales. The president mentioned the Thompson-Morgan, a specialty line. I wonder if he could elaborate on that. Are you telling committee that you are handling sales for that company? I wonder if you could elaborate on that.

**Mr. West:** Mr. Chairperson, that is correct. We have three specialty lines that are lines that we market along with the McKenzie brand. One of them is Thompson and Morgan. It is from England; it is an upscale line of vegetables and flower seeds of special nature. We market that along with our product, and we have been very successful in the marketing of that product.

What happens is that where there are locations that want more than one line of seed, before they maybe had McKenzie and a regional competitor. Now what we have been able to do is convince them to, obviously, handle McKenzie, but instead of having a regional competitor which is just a duplication of McKenzie line, we have got them to extend their opportunities and lines to cover things like Thompson and Morgan, Royal Fleur and Semente Dotto and things of that nature, so that the space they were giving to the competitor they are now giving to McKenzie, and they are expanding their opportunities to sell because their line has expanded.

**Mr. Leonard Evans:** How long has McKenzie's been involved in this arrangement with Thompson and Morgan?

**Mr. West:** This would be our third year.

**Mr. Leonard Evans:** It has proved to be a profitable arrangement?

**Mr. West:** Very definitely.

**Mr. Leonard Evans:** Again just generally, to what contribution does it make, let us say, to sales?

**Mr. West:** Mr. Chairperson, I am not exactly sure of this number, but I think that Thompson and Morgan was about \$330,000, and some of the other specialty lines contributed about another \$200,000 to \$300,000, so part of that sales increase of a \$1.3 million that I mentioned over the last two years is directly attributable to what we call niche packet lines, specialty packet lines. That is Thompson and Morgan, Royal Fleur and Semente Dotto.

**Mr. Leonard Evans:** Mr. Chairperson, I would like to ask a couple of questions related to the U.S. market. The president gave us some information. I am concerned about, and he mentioned the aggressive nature of the competition in the United States. Has there been any indication or any sign of a sort of retaliation on the part of your American competitors by coming into Manitoba or coming into Canada and marketing against you?

**Mr. West:** Not that we have seen, and we have not experienced any.

**Mr. Leonard Evans:** Does the company have any employees in the United States?

**Mr. West:** Mr. Chairperson, no we do not. We have some associates that we work with. These are people that have an operation in Minot, North Dakota. They work with us in the distribution of our nursery material which has to be shipped from south of the border because of phytosanitary certificates and regulations and so on. It is difficult to send that material from Manitoba south of the border.

\* (1140)

**Mr. Leonard Evans:** On another question relating to the location of the employees, the bulk of them I know are in Brandon, but how many employees are outside of the city of Brandon?

**Mr. West:** Mr. Chairperson, I would think about 25, perhaps, about 25 full-time equivalent.

**Mr. Leonard Evans:** Equivalent out of a total of what, 175?

**Mr. West:** 175, right.

**Mr. Leonard Evans:** Of those 25, I imagine one or two are in Manitoba and the bulk of them would be outside of Manitoba?

**Mr. West:** Mr. Chairperson, there is only one permanent person in Manitoba. He is here in Winnipeg, a sales rep. There would be some temporary people who service the racks and so on.

**Mr. Leonard Evans:** The president, in his earlier remarks, mentioned the employees receiving a bonus. Could he indicate the nature of the bonus and what was the basis of it? Was it related to the profit scheme, or could he elaborate on it a bit?

**Mr. Downey:** My only comment would be, is that it was implemented about three years ago through the board policy and the management put together a package so it has not been in place too long, but I do think it was good move by the board and the president can explain how it works.

**Mr. West:** Basically, it is a profit-sharing bonus. If there are no profits, there is nothing to share obviously, but because McKenzie has done fairly well, we have had some profits and we have tried to share that with our employees. After all, we think that they are instrumental in making this company what it is today, so we have been able to give these profit-sharing bonuses. For example, last year most people that were working in the plant received a bonus, I think, of \$575, which is probably equivalent to about 2.5 percent or 3 percent—2.5 percent, I guess.

**Mr. Leonard Evans:** I thought the president mentions the bonus really being equal to 2.5 percent of their annual wage?

**Mr. West:** That is correct. I did not calculate it out, but it was—like, if their annual wages are \$20,000 or \$22,000 or something like that, so whatever \$575 would be as a percentage.

**Mr. Leonard Evans:** Is the bonus paid to everyone, from the president down to the floor sweeper, let us say?

**Mr. West:** Yes.

**Mr. Leonard Evans:** Is the bonus related to each individual's annual wage or salary, or is it a percentage of the average salary and then everyone gets the same amount?

**Mr. West:** Basically, it is related to earnings, as a percentage of earnings.

**Mr. Leonard Evans:** Therefore, if an employee made \$40,000 as opposed to \$20,000 in annual wages, his bonus would be twice as much.

**Mr. West:** There are two plans that we have on this profit-sharing package. One plan is set up for the unionized employees, and another plan is set up for the managers. The managers plan is a richer plan, and it should be because the managers have—I do not want the member to think that this is downgrading anybody, it is not. Everybody is very important at McKenzie's, but the, for example, vice-president has more responsibilities and carries a bigger share of the load, and so his plan is structured accordingly.

**Mr. Leonard Evans:** Is the president telling us that 2.5 percentage does not apply to management? It only applies to the unionized workers?

**Mr. West:** The plan is based on profits, and it does not have a cap. If the profits go higher, the bonuses go higher. The two plans are different. It does not mean that anybody in the plant, for example, cannot earn 3 percent or 4 percent or 5 percent if the profits go that high. The managers plan, as I said earlier, is a richer plan, and I certainly do not apologize for that. It should be a richer plan.

**Mr. Leonard Evans:** I wonder if the president could explain the basis of the plan. He says there are two plans. The one I understand is 2.5 percent of annual salary. Does the other one have a different ratio or a different system? I wonder if he could elaborate somewhat clearer.

**Mr. West:** Mr. Chairperson, I am sorry, I did not want to indicate that the plan was a 2.5 percent plan for the unionized employees. It is not. The plan provides a package of money that can grow, if our profits grow. If our profits grow, it does not necessarily mean that it is 2.5 percent. It could be 4 percent; it could be 5 percent; it could be 7 percent, depending on how the profits grow. There is no percentage attached to it. In 1991, it happened to work out to about 2.5 percentage points. The same for the other part of—

**Floor Comment:** Two and a half has a familiar ring to me. It dates back to the '70s.

**Mr. Leonard Evans:** I am just trying to clarify. I just want to go on record I am not opposed to this profit sharing. I think it is a good idea. I am just trying to get some clarification based on what the president has told us. Is what he said then, the 2.5

percent is the total amount of the profit that is paid to a bonus? Is that what he is saying?

**Mr. West:** No, not at all.

**Mr. Leonard Evans:** I am not trying to confuse the issue. I am just trying to get the matter straight here.

**Mr. Downey:** Mr. Chairperson, as I understand it, the bonus is tied to the profitability of the company, which is distributed fairly and equitably amongst the employees. Whatever that percentage is is directly relative to the total profit that the company makes.

**Mr. Leonard Evans:** Of the net income, or the profit, for the year ending October 19, 1991, that is the \$1,096,000, how much of that was paid out in bonus?

**Mr. West:** Mr. Chairperson, the \$1,096,000 is net after the bonuses have been paid, so the bonuses are indicated in the operating expenses.

**Mr. Leonard Evans:** Could the president tell us what was the total amount of bonus paid in the year ended October 31, 1991?

**Mr. West:** Mr. Chairperson, I have to check here first—I am not sure. Approximately \$160,000.

**Mr. Leonard Evans:** One hundred and sixty thousand dollars. What was it in 1990? Do you have that?

**Mr. West:** Approximately \$105,000.

**Mr. Leonard Evans:** If so, as I understand it then, this amount of \$160,000 paid out last year, which is shown as an expense, is paid out, as the minister said, in an unequal, inequitable fashion. [interjection] You said an inequitable fashion. I think he was being very candid, because that is what it is, being paid out in an inequitable fashion. Again, I am not being critical, I am just repeating I think what the minister said. There are two formulae. One is for management and one is for nonmanagement. I am still not clear where the 2.5 percent clicks in.

**Mr. Downey:** Mr. Chairperson, if I said inequitable—

**Mr. Leonard Evans:** Did he not say that?

**Mr. Downey:** If I said it, then I withdraw it, because it was not meant to be that way. It is my understanding that it is established on an equitable basis amongst the employees of McKenzie. I guess the way it has been structured is one which has been in agreement with the employees, all the employees of McKenzie, both management and employees. As I indicated in my earlier comments, it is the first

time they have seen this kind of a program in place, and it is a good incentive. It is the principle that I am pleased that the member for Brandon East subscribes to.

I think it has helped to give a settlement with the employees of McKenzie, which we were pleased they settled. They had some tough times they had gone through. Job security is critical to them, and they have seen that established as employees, both management and plant employees. The bonus package is, I think, a fair and equitable principle that has been applied to them, within that, and I reiterate again, I see it as an equitable approach handled by the management of the company. I will stand in defence of the way in which it is handled and in defence of the board for the implementation of it.

\* (1150)

**Mr. Leonard Evans:** I wonder if the president then could carry on and explain this 2.5 percent. I do not know how that works.

**Mr. West:** Mr. Chairperson, this 2.5 percent is perhaps confusing, and really it only happens to be the percentage that was applied for the 1991 part of the profit-sharing plan. The 2.5 percent does not mean anything. It just happens to be the level that was paid out in 1991. In 1990, it was a lower level, it was like \$300, I think it was, per employee, which would work out to 1.5 percent. That is the only reason I used the percentage.

The percentage is not important, it is the pot of money that is available, and then it is divided up equitably based on the numbers of hours that the people are working, and if the pot grows bigger, then their percentage will get bigger.

**Mr. Leonard Evans:** In the first place, Mr. Chairperson, the board has to decide, I would think, of the profit that is available, how much in total the board wishes to designate for this purpose. Having done that—and I understand that, and I am not opposed to this—there has to be some formula that the management uses to distribute these funds between all kinds of employees. I am just wondering, what is the formula?

**Mr. Downey:** Mr. Chairperson, that is right. There is a formula that is established as to the percentage of profit that the bonus kicks in. It starts at \$400,000. I will let the chairperson of the board explain it, and hopefully we can get on to passing this report. We can get all this detail for the member later, but if he wants it now, we can get it now.

**Mr. Smeltz:** Mr. Chairperson, the bonus was initiated by the board to be an incentive for the employees throughout the company, and it is structured in such a way that it kicks in at a certain level. I think the level is \$400,000. After that, it is on a sliding percentage scale of that year's profits.

The pot is divided between the management side of the organization and the union side of the organization, as the president stated, sort of on a weighted basis, because of different responsibilities. I think what you are getting at is that it is based on the union side as to the number of hours they work before they get any bonus. They have to work a certain number of hours before they qualify. If they are a full-time employee, then they get the maximum portion of that pot that all the rest of the employees who meet that criteria are able to get too. It is even across the certain levels of employees, but it does not mean that all of the unionized employees get the same amount. It is more to the effect that the more hours they put in in the plant, the higher their bonus is.

**Mr. Leonard Evans:** It seems to me, however you do it, there has to be some kind of a formula. There has to be. I would have thought one formula would be a percentage of an annual wage that a person earned, given everything into consideration. The board may wish, in its wisdom, to decide, well, for one category we want to use a higher percentage than another category. That is your prerogative.

I understand that you delineate a pot of money and you distribute it. It is still a little vague as to the basis, as to how you distribute it. I mean, does management get 5 percent, let us say, and the plant workers get 2.5 percent, or 4 percent or vice versa?

**Mr. Smeltz:** Mr. Chairperson, the board simply passed the policy of the bonus incentive package for all employees in McKenzies at Brandon, and we leave it up to the management to decide how to distribute it.

**Mr. Leonard Evans:** Does that mean, Mr. Chairperson, that the management could decide that employee A should get more than employee B, doing the same type of work?

**Mr. Smeltz:** Mr. Chairperson, there is a formula that was also passed at the same time, but the formula is a little bit more flexible, I suppose, and you know, there are sort of ranges, I guess you might say, that management is allowed to give out so that everybody is—instead of a bonus of

\$547.62, it is evened out to \$550 or \$575, things like that. How they distribute that among the employees, I am sure that management has been there long enough to know that they cannot make enemies throughout the plant, and so it is done on a very simple basis and a very equitable basis, as the minister said, so that everybody is treated fairly and equally.

**Mr. Leonard Evans:** I go on record again as supporting a bonus system. I repeat, I was simply trying to get a clarification how the mechanism works for the distribution of those. I gather you have some mechanism at work here.

**Mr. Smeltz:** Everybody is quite happy with it.

**Mr. Leonard Evans:** I would like to ask the president also, Mr. Chairperson, about the employment training centre, and if he could tell the committee what the purpose of that centre is and how it is working.

**Mr. Downey:** Mr. Chairperson, I will just interrupt at this point, just to add that I think the McKenzie company, under the management of our managers and the board, recognized the marketplace changing and the need for upgrading of staff and employees, also the recognition for Mr. A. E. McKenzie who was a long-time resident and owner of the company. The McKenzie's will be celebrating their 100th anniversary, I believe, in about three years. I think it was a recognition again as a contribution to the employees to establish a centre within the McKenzie's plant for precisely that: upgrading, training on product activity in the whole product line. It is part of their commitment to the employees' relationship.

Secondly, there will be an open house on April 10 that everybody is invited to. That is, if we get finished the report by then. I will let Mr. West further add to it, but that is basically it.

**Mr. West:** Mr. Chairperson, I really do not have much more to add. That was well described.

**Mr. Leonard Evans:** How many employees would it train at any one time?

**Mr. West:** Mr. Chairperson, perhaps 40 or so, at only one location, at least at one time, but we will be training—all kinds of sessions will go on in the room.

**Mr. Leonard Evans:** Mr. Chairperson, there are various kinds of jobs in the operation. What are you training people for?

**Mr. West:** Various types of things. For example, we will have some product knowledge training. Some of that took place last week. We will have some sales training. We will have some training about systems and how we can improve our operating systems. Computer technology will be trained in that room. It is just a delightful training centre for our employees. It also shows the commitment of McKenzie's to its employees.

Today, as the minister indicated, the world is not standing still, and we have a responsibility to be abreast of things. We will keep our employees abreast of things, and so it is an opportunity for them to develop their skills.

**Mr. Leonard Evans:** Mr. Chairperson, I thank the president for that information. Can he tell us who does the training? I know you are talking about selling, you are talking product knowledge, and so on. I would imagine some managers can do some of the training, and so on, but I would like the president to tell us—or do you bring in outside expertise? Do you bring in some accountants? Do you bring in—God forbid—the minister? Confusing, if you might. Do you hire specialists in different categories?

\* (1200)

**Mr. West:** All of those things. For example, I ran a training session just in the room last week. Yes, we will be bringing in outside people. We will be using the resources that we have in-house. To answer your question, all of those things. There is no—

**Floor Comment:** As need dictates.

**Mr. West:** Exactly.

**Mr. Leonard Evans:** I see. What you have done, you have designated some space to utilize for training sessions from time to time.

**Mr. Downey:** Mr. Chairperson, again, I should have emphasized a little more. I have invited the member, and all members, to come on April 10, to McKenzie's where we are having an open house to show the whole plant. This training centre will be part of the tour. I invite him, and if he wants some added attractions, we could even have somebody bungee jumping from the big clock up there. If he would like to volunteer, we could have some additional excitement.

Seriously, I underemphasized the importance of the April 10, time which we invite every member to come and see the training centre. It is a facility right

within the plant, and it is a very well done place. I am very proud of it.

**Mr. Leonard Evans:** What is the anticipated cost of this facility and the operation of it?

**Mr. West:** Mr. Chairperson, construction costs would be—what?—\$10,000, \$15,000, and that is a guess, perhaps \$10,000 equipment. Ongoing training costs, we will budget sums of money each year for various training sessions. I do not know the exact amount, but I think this year we maybe have something like \$30,000, \$40,000 or \$50,000 budgeted for training of staff, development of staff.

**Mr. Leonard Evans:** Is this the first time the company has undertaken training efforts of its staff?

**Mr. West:** No, we have been doing it on more of an ad hoc basis, but I do not think that is good enough anymore. I think we have to become more committed to the development of our staff in allowing them to develop their skills.

**Mr. Leonard Evans:** What you have then is, you have designated a space, and you want to do this. You want to step up the in-house training because that is really what it amounts to.

**Mr. West:** That is right.

**Mr. Leonard Evans:** I was not clear whether what you are doing is bringing in outside experts to teach people whatever you wanted to teach them, whether it would be computerization, greater knowledge of the product, or whatever.

**Mr. Downey:** Mr. Chairperson, I should have explained it a little more. I think it serves several purposes, in-house training for new product development or making sure the customers are satisfied, that the people know the product they are delivering, whether it is in packaging. If there are new employees who come to McKenzie's who need a training session, there is the equipment and the place to do it.

If there are people coming wanting to buy product from McKenzie Seeds, it is a facility and a place in which we can put on a screen the product line. It is a sales office. It could work as a promotional office as well. So I see it as being used as a broad range of activities in the promotion of the employees of McKenzie Seeds and their skills, but also the promotion of the product that McKenzie sells.

It is going to be, I think, a multipurpose room which is well done and set up in a classroom or an

educational fashion which I think the member, when he has an opportunity to see it, will be impressed.

**Mr. Leonard Evans:** Just another question. Well, we will just be leaving that topic aside for a moment. What about the pension plan? I know there have been changes made in the plan over the years, and there are notes here on this, so it is a part of the annual report. So I wonder if the president could elaborate on the state of the pension plan at the moment and give us some information as to how it is working?

**Mr. West:** Mr. Chairperson, I will let the member for Brandon East (Mr. Leonard Evans) know that the pension plan has been in effect for a number of years. We actually have two pension plans at McKenzie company. One is for the unionized employees, and it is funded on a funding basis arranged through negotiations with the union. That is in the union discussions each and every time we have a meeting to talk about the negotiations.

The other one, the plan that is referred to in there, is the plan for the people who are not in the union. Basically, it is a plan that is fully funded, and we are gradually improving the benefits from the plan each and every year because we have been watching how the investment portfolio has been set up. We are meeting with the people who are handling the investment portfolio, and we are asking them to set objectives that are beyond inflationary objectives, so that we are gaining on inflation, and inflation is not eating at us.

Things of that nature, we have gradually improved the plan over the years; for example, we have reduced the age where a person can retire from 65 to 62 without penalty. We have increased the amount of money funded out of it from a benefit of 35 percent to 40 percent, and this has all come through the benefit of the plan working for the employees and the investment of it.

I might just add that this is an area that was not at all well managed eight years ago. No one paid very much attention to this plan. No one was demanding on anyone who was handling the investment portfolio and things of that nature. That has all changed. We are very demanding. We meet with the people and we say, hey, here is what we have got to have. How are you going to deliver it?

We watch their performance, and before, no one was watching their performance eight and 10 years ago. The people who were handling our investment

portfolio were right at the very bottom consistently years running and no one cared anything about it. They did not ask them any questions, they did not demand anything from them, and we are not letting that slide anymore. We are bringing these people in, asking them for an annual review of their performance and how it relates to other people in the business. Because of that we have been able to get a much stronger plan and have been able to improve the benefits for the employees.

**Mr. Leonard Evans:** That is good to hear. I am very pleased with that. Again, without going into a lot of detail, could the president indicate then what is the formula for payment, let us say, to the unionized worker? In other words, what I am asking is: How do you earn your pension? You get so many points? You earn 2 percent per year of service, and does that apply to the average of the last five years salary, that sort of thing?

A lot of government plans, the government of Manitoba for the Civil Service, it is two points per year, I think. The maximum is 70 percent and it is earned over a period of years of service, and that total percentage is applied to usually I believe it is the last five years average wage of the civil servant. This is what I am getting at. How is the payout arranged for, let us say, the unionized portion?

**Mr. Robinson:** Mr. Chairperson, the union plans for an amount of money to be contributed to each employee based on the number of hours that they worked during the year. The formula for the union plan is a specific formula that addresses the amount of money that is provided as a pension on retirement based on years of service. I do not have the exact numbers that I can provide at this particular time.

Certainly, the longer they work, the more pension. It is related to the years of service. The plan that we have for out-of-scope employees, which is the second plan, basically is a plan that is determined using the average of the last five years earnings as a percentage of—and the percentage, I believe, is up to about 40 percent, so an employee can earn a pension based on the sum average percentage of his last five years with the company or his highest five years, which in most cases is the last five years.

**Mr. Leonard Evans:** Mr. Chairperson, did Mr. Robinson indicate the maximum was 40 percent?

**Mr. Robinson:** Mr. Chairperson, I believe that an employee who has approximately 35 years of service could earn a pension equivalent to about 65

to 70 percent of his final average five years earnings.

**Mr. Leonard Evans:** Yes, that sounds almost in line with the Civil Service pension that we have here.

I know we mentioned the name of Dr. A.E. McKenzie in the past, but if Dr. McKenzie could see the generous treatment of the employees by the company, I think he would turn over in his grave. The stories are legion, and Mr. West knows, because he has been there a long time, of Mr. McKenzie paying very little and being there with a stopwatch to see what time people entered the plant, and so on, and then pretending that he was going to Winnipeg on a business trip and not going to Winnipeg, but standing at the door seeing who is coming in late because the boss was not supposed to be there.

\* (1210)

At any rate, I think I have concluded most of the questions that I wanted to ask—just one or two others, Mr. Chairperson, in view of the fact that this an important company, important to not only Brandon, but the province of Manitoba, and since we did not go over last year's report, I think it is deserving that we do have this review.

I would like to ask this general question because it is something that I think is basic to why I think it has to stay the way it is in ownership arrangements, and that is the seed content. Is it correct, Mr. Chairperson, and I ask this of the president or whomever, that the bulk of the materials for the packaging are imported into the plant, imported into Brandon or imported into Manitoba from elsewhere?

**Mr. Downey:** That is correct.

**Mr. Leonard Evans:** So virtually none of the contents of the package seeds or the bulbs or whatever or even the other paraphernalia, the gadgets that the president referred to, the other products, the garden equipment and so on, all are virtually brought into Brandon from elsewhere.

**Mr. West:** That is correct.

**Mr. Leonard Evans:** What about the cardboard stands and the package material itself, like the packages and the boxes, et cetera?

**Mr. West:** Mr. Chairperson, the cardboard stands come from Winnipeg, the MacMillan Bloedel factory here. The packets of seeds come from Toronto, the seed from all over the world. The only major

component part is the labour that comes from Brandon.

**Mr. Leonard Evans:** This reminds me very much of what the Japanese have been very successful at, you know, bringing in the raw materials whether it be iron ore, coal or whatever, processing them and shipping out the manufactured steel, the steel products and so on, their contribution being the labour. Really this is what we have here. This is why, as I said and the minister knows this and I am not trying to debate this actually, I am just saying why it is very important that it remain under provincial ownership to ensure that the location remains in the city of Brandon. It would seem to me that the economics of location in private hands could see a different location to maximize profits.

I would ask the minister then if he can assure the committee that the government's philosophy and policy of privatization as espoused many a time by the Minister of Finance (Mr. Manness), his colleague in the cabinet, that McKenzie Seeds will continue to be exempt from this privatization policy of this government.

**Mr. Downey:** Mr. Chairperson, it is the intention of this government to maximize the benefits of Manitoba, Westman, all of this province with McKenzie Seeds. We have shown that. I think we have managed it through the management and the board that directed it responsibly. We will continue to look for opportunities that will further enhance this position in the employment of people, in the job security and the whole business. I think that it is, as the management has indicated, it has got growth opportunities, and we hope that it will continue to do so.

**Mr. Leonard Evans:** Mr. Chairperson, I am encouraged with what the minister has said, and I think we are all onside. This is a great company. It has a great management, dedicated employees, loyal staff, and they have worked very hard. They are to be congratulated. I just want to ensure—

**Mr. Downey:** Me or the manager?

**Mr. Leonard Evans:** Well, it is a great difficulty giving credit to the minister, like, he is a nice guy, you know, what the heck, and the board. I would give great credit to the minister if he can answer me very simply. I think he is trying. In other words, this government which has a policy of privatization which Mr. Manness, the Minister of Finance, has stated many a time, and we have seen the Manitoba

Data Services sold and so forth, that the government policy regarding McKenzie will be different, that it will continue to be exempted from a privatization policy of this government.

**Mr. Downey:** Mr. Chairperson, I do not want to prolong the debate. I could go back to the history of it, and we have had that debate in this particular room and the member has been involved. As I indicated, I will do my effort, the best effort, the government will, to make sure that McKenzie Seeds maximizes their position in the marketplace to enhance job opportunities and economic activity in Brandon. To this point there has not been any change in that policy as we talk to these committees, and I do not anticipate there will be. Again, I want to make sure that the company is strong, vibrant and expanding, and that is what we will continue to work towards.

**Mr. Leonard Evans:** I thank the minister for those encouraging words. It does show that a publicly owned company, given a good board, good management can succeed. I just say this for some of the new members of this committee. The minister knows, but some of the new members of the—this is a very, very competitive business. I mean, it is not like telephones or hydro where you have a monopoly of a particular product. You do not have this. You are right out there in the marketplace, and the cold cruel world of competition is there, and you have to work very hard. You have to be better in order to succeed, particularly given the fact that we have to bring all the material in and process it and send it out, 90-95 percent, outside of the province of Manitoba and succeed at doing it. I think that is great.

**Mr. Downey:** Mr. Chairperson, I thank the member for his questioning and hope that we can pass this report.

**Mr. Leonard Evans:** Unless any other members have any questions, I am quite prepared to pass it.

**Ms. Rosann Wowchuk (Swan River):** I just wanted to ask one question, and that is: If all of our products, our seeds, are imported, is there any effort or any research being done to produce seed here in Manitoba, or is it our climate that deters that? Are any efforts being made in that direction?

**Mr. West:** Mr. Chairperson, there has not been a significant amount of work done on production here in Manitoba. We do have onion set production here but, for the most part, our climatic conditions are

really not suitable for seed production of a lot of crops. There are some specialty crops that we are looking at trying to produce here in Manitoba and, perhaps, that will come about in the next few years.

**Mr. Chairperson:** Shall the Annual Report for A.E. McKenzie Co. Ltd., for the fiscal year ending October 31, 1991, pass? The Annual Report for the fiscal year 1991 is accordingly passed.

Shall the committee rise?

**Floor Comment:** No, better do some work.

**Mr. Chairperson:** Keep on working?

**Mr. Downey:** With two more reports, I wonder if it would be important to ask the members if we could deal with Channel Area Loggers and pass it this morning, and then, if we do not get to Moose Lake to pass it, we can do it at another time. If we could pass Channel Area with—

**Mr. Chairperson:** Does the committee wish to consider the Annual Report for Channel Area Loggers?

**Mr. Leonard Evans:** It sounds like a reasonable suggestion, but our main critic is indicating we do not have a copy of the Channel Area Loggers report. You know, there is a new system in the House. Excuse me. I have never been given a copy, and I disagree with this. As an individual MLA, LAMC has decreed that in order to save money there will not be distribution to each and every member in the House of copies of annual reports.

What happens is, a small amount is given to the various caucuses. Unless arrangements are made, then members do not necessarily have these reports. So I have not yet seen a copy of the Channel Area Loggers report. I do not know about the member for Inkster (Mr. Lamoureux) or any of the other members. Have you seen—are you prepared to discuss this?

**Mr. Downey:** Mr. Chairperson, I appreciate the member's difficulty that he is having with LAMC, but I understand the Channel Area Loggers report that we are dealing with was tabled under the old rules and everybody did get a copy of it.

**Floor Question:** Was that last year?

**Mr. Downey:** Yes, indeed.

**Mr. Leonard Evans:** Okay, well, that was last year's.

**Mr. Downey:** You have a copy of it now.

**Mr. Chairperson:** Yes, for the information of the committee, both the reports of Channel Area Loggers and Moose Lake Loggers were tabled in April of 1991.

**Mr. Leonard Evans:** There is no way that we can get through both Channel Area and Moose Lake today. I think the minister is sort of hinting, let us do Channel Area and do Moose Lake tomorrow or the next time. I do not want to speak for my colleague now. I would suggest that we could easily do both of them the next meeting of the committee. It will not make it any longer.

**Mr. Oscar Lathlin (The Pas):** I was going to suggest that because I wanted to spend considerable time talking about Moose Lake—

**Mr. Chairperson:** Would the honourable member pull his mike a little closer to him, please. Thank you.

\* (1220)

**Mr. Lathlin:** Last time I was told to leave it back there.

Thank you, Mr. Chairperson. The reason I wanted to ask the chairperson to see if we can come back another day to, you know, go through Moose Lake Loggers and Channel Area Loggers is that I

wanted to spend a little bit more time than 15 minutes on Moose Lake Loggers.

I do have a lot of questions to ask the minister and the board—whoever is running the Moose Lake Loggers, and especially in view of what has been happening today. There has been a news release put out by the government that Repap is restructuring and, obviously, that has a very direct impact on the community of Moose Lake and also the company. That is why I wanted to respectfully ask that we come back some other day to go through the report.

**Mr. Downey:** Mr. Chairperson, I indicated that in my comments. I do appreciate the fact that the member may want a little more chance to take a look at it. I guess that is why I had suggested we deal with Channel Area Loggers. Just to show how co-operative I am and the government is, I am prepared to call it 12:30, and we will deal with these at the next sitting of the Economic Development committee.

**Mr. Chairperson:** The hour now being 12:30 p.m., committee rise.

**COMMITTEE ROSE AT:** 12:22 p.m.