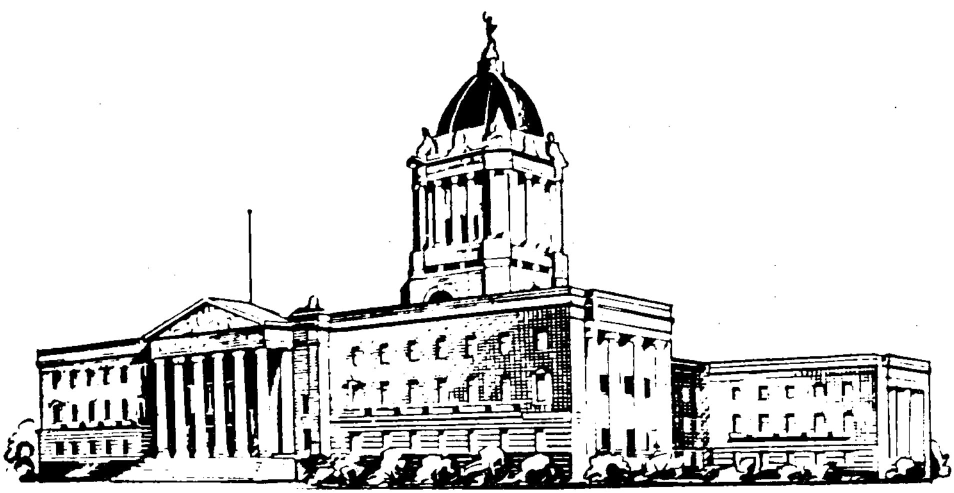
Legislative Assembly of Manitoba

HEARINGS OF THE SPECIAL COMMITTEE

ON

ECONOMIC DEVELOPMENT

Chairman
Mr. Harry Shafransky, M.L.A.
Constituency of Radisson



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ECONOMIC DEVELOPMENT COMMITTEE
10:00 a.m. Thursday, March 27, 1975

CHAIRMAN: Mr. Shafransky

MR. CHAIRMAN: Order please. This morning we are to hear the Annual Report from the Chairman of the Manitoba Development Corporation. I believe you've all met Mr. Parsons before. Unless there is any other introductory remarks that Mr. Green might wish to make, I'll call on Mr. Parsons to proceed with the Annual Report from the MDC.

MR. CHAIRMAN: Mr. Chairman, just out of courtesy in the same . . . It's true that Mr. Parsons does not need an introduction to the members, he's been appearing before committee for two years, but I think that I should at this time indicate the fact that Mr. Parsons has assembled and is working with what I think is a very distinguished group of people, and is working with them under circumstances which are very difficult, in a manner which commends himself to the committee.

I'm not going to introduce him on the basis of his qualifications, merely on the basis of the man who has handled the Development Corporation during the past two years under difficult circumstances, but I think in a very creditable style.

MR. CHAIRMAN: Mr. Parsons.

MR. PARSONS: Thank you, Mr. Chairman, and gentlemen. Before we proceed with the MDC statement we have packaged our subsidiary companies. They're being passed out now. We will be taking these up either later on this morning or at another meeting. These are the most up-to-date statements we have for all our investment accounts. We have also made up a fly sheet to go with each one to show what our investments are to give you a quick rundown of them. We'll also try to bring you up to date on the current position of each one as we go through them.

Now, back to the Manitoba Development Corporation's statement. I'm here today to review the statement with you for the year ending 31st of March, 1974. Mr. Green has previously tabled this statement in the Legislature and I believe all should have copies, but if you don't there is another copy in the package you are receiving this morning.

My report on Page 5 and 6 of the statement lays out in thorough detail my comments regarding the statement of operations, but there are a few points that we may elaborate on before we get into the question period. On Page 9 of the Statement of Income and Expense, our net loss this year was $16,410,000. This loss is, as in previous years, basically made up for the provision for doubtful accounts and potential losses on investments and our loan receivables and interest charges on the Forestry Complex.

Our provision for loss on equity investments and related loans receivable as shown on Note 2 on Page 15 of the Annual Report was the amount of $7,673,864; and the loan receivable from The Pas Forestry Complex interest charges for the year - that is noted on Note 3, Page 16, amounted to $8,557,881. There was one other fairly major adjustment in the loans that are in receivership and there was a reserve for the amount of $855,011 listed on Schedule 4 of Page 15. These three items alone amounted to $16,800,000 which is in fact larger than the loss we are showing. So if in fact we didn't have to reserve for the interest losses in The Pas and for the loans and our equity investments we would have shown a moderate profit of slightly over half a million dollars.

If there's any questions on the provisions, I have more details of them if you wish to review them later, if there's any questions on them.

These are really the only comments I have on the Income and Expense Statement. The Balance Sheet shown on . . .

MR. SPIVAK: Do I understand that you, sir, are intending to sort of review the whole thing and then come back to questions, or would you prefer questions just on some . . .

MR. PARSONS: No, I'll just briefly review it, then we can go back and run through it. I think it would probably be more orderly that way. But my remarks are short anyway.

The Balance Sheet is layed out in sufficient detail. I think that along with the schedules and the statements to the Balance Sheet are, I feel, quite well explained. If there's any other points on the Balance Sheet again when we get to the question period I'll be glad to cover that.

There was one question that I noticed was brought up and that was on the properties that we're holding for resale, $1,241,209. There was basically two additions to our properties during the year '73 - '74. One was the St. Jean Sportswear building in St. Jean, Manitoba, valued at $40,500, and the other was the sale of the Flyer Building in Morris, Manitoba to

(MR. PARSONS cont'd) . . . .Sheller-Globe (Manitoba) Limited in the amount of $443,627. The property that we took over from Flyer and sold to Sheller-Globe is under lease to Sheller-Globe (Manitoba) Limited and the term of the lease will pay out the full amount of our investment at our regular interest rate at that time which was about 10 percent. The rest of the properties are all under lease with the exception of the St. Jean building and we haven't an occupant for that at the present time. There was also a question, I might as well cover it now, regarding Columbia Forest Products fire insurance loss. There was insurance coverage on both the inventory buildings and equipment. We received $100,000 which was the full amount of our inventory coverage and we received $850,000 which was the settlement on the building and equipment that was destroyed; total insurance recovery was $950,000.

I don't think I at this point have any other comments on our statement, if you'd like to get into the quesion period on this.

MR. CHAIRMAN: Mr. Minaker.

MR. MAINAKER: Mr. Chairman, I presume that we will go through the report in chronological order as far as questions go so. . . .

MR. CHAIRMAN: Yes, I think that is the best procedure.

MR. MINAKER: My first question relates to the comments in the report of the chairman and general manager and there's an indication there that there's a need to restructure the capitalization of the corporation. And my question to Mr. Parsons is, if there is an establishment of share capital of some type in the corporation, who is going to establish the market value for the capitalization, in other words the market value of these companies or the corporation and its holdings, and how will they establish this value? Because if we look at the comments of the Auditor in the report, I think it's on Page 8, that he indicates a problem with the allowances for potential losses on equity investments and the reason he states is that in some of these companies that are still in the development stage and have not as yet demonstrated their values as going concerns and we are unable to express an opinion on these valuations, and I'm wondering how if you are going to capitalize the corporation, that you will come up with some realistic value, because on the open free market, as you know on the market it's the demand of the people wanting to buy the shares that actually establish the value of the shares, if it pays a profit and a dividend and so on. So our concern is how would you arrive at really knowing what the values of the MDC holdings are in order that we get a true picture of what losses have occurred in the past and what the real worth of the corporation is?

MR. PARSONS: I don't anticipate we would capitalize on that basis. You're right it would be very difficult to value our equity investments at this point when they're in a development stage. In fact what we have done is written off a reserve against 100 percent of our equity and 75 percent of our loans in those particular development companies so that our losses are aggravated because of this accounting method. What we would see in the way of capitalization is we've had a lot of losses in the past because of low capitalization. You see on our Balance Sheet we're originally capitalized, or the MDC was originally capitalized at $5 million. What we have had to do to cover our losses is borrow capital funds each time, so this aggravates our loss because we're paying interest on our losses. What we would propose is a capitalization, to stabilize our function we would apply for capitalization to cover those back losses and our equity investments. This we see in the area of about $50 million, but it would not be established because of the value of our investment accounts.

MR. MINAKER: This writes them off?

MR. PARSONS: Well, they already basically have been done. Now, we would of course down the line as these come on the value would come back into the MDC. But at this point we couldn't value it that way.

MR. MINAKER: Mr. Chairman, also in the report there's the definition of the guidelines which the directors operated under since September 1973, and I think under guideline 3(a) you indicate that the directors are to proceed by way of recommendation to the government in the following types of situations and under (a) it states: "Where the corporation is intending to advance money either of a lending or development nature and such moneys were not part of the original corporation program but are required because of overruns or a shortfall in forecast income or other adverse developments, should the excess be greater than 100 thousand whether granted in one or more stages, the prior" - and I underline this - "the prior consent of the Minister is to be obtained. In requesting such consent the board is to provide its comments and recommendations."

(MR. MINAKER cont'd)

Mr. Parsons, could you advise us how many loans of this nature were handled in the last year since September '74 where they exceeded 100,000 and the Minister's consent had to be given?

MR. PARSONS: Offhand I can't. But where this comes in is a situation such as Saunders and Flyer where the capitalization is ongoing so as the approvals were put through they went over to the Minister for his approval. There hasn't been a great deal other than those two that I can recall under that section.

A MEMBER: William Clare.

MR. PARSONS: Pardon me, William Clare, you're correct. William Clare was another one that came after the fact.

MR. MINAKER: My last question at this point Mr. Chairman, is also on the same page. You have indicated in the last paragraph: "In accordance with guidelines major efforts were expended to make existing investment accounts profitable. Significant progress was made in increasing the profits or reducing the losses of several of the companies." I'm wondering, can you offhand list the companies who increased their profits under this . . .

MR. PARSONS: Well, we'll be going into all our equity accounts that you have in the package. So you'll have a comparison.

MR. MINAKER: You'll make a point of drawing out that these are the ones that have increased their profits and also the list who reduced their losses as well. Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, I just want to try clarifying something in my own mind. Mr. Minaker has said that the way an ordinary company determines their share capital or the value of their share capital is what it achieves on the market. My understanding is then, that the share capital shown on the Balance Sheet is the authorized and issued price of the share capital, has nothing to do with the market price. That the market price of shares is the price that people will pay for them. That that does not show on the Balance Sheet at all. Now maybe I'm incorrect but I would ask you as an accountant to tell me.

MR. PARSONS: Basically you're correct. Your authorized capital which shows on your Balance Sheet that may not necessarily reflect your market price. As a matter of fact I think if you look at the ones that are on the exchange they're probably quite a bit different than the Balance Sheet value.

MR. GREEN: Is it quite common for a private company in difficulty where there is a loan capital outstanding let us say, loans to shareholders, and the company is not making a go of it, for a company to request its shareholders to convert its loan to shares and it then shows on the books as share capital which couldn't be sold at the price that it is shown at? Are you aware whether that does occur or does not occur?

MR. PARSONS: Oh yes.

MR. GREEN: The difference between this company and a private company is that our shares won't be on the marketplace so that we will not have a market value of our shares. That the authorized shares and the method of capitalization is not different.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I just wonder if I could ask Mr. Parsons some questions about the guidelines as set forward. And perhaps the first question would be, what would be the major difference between these set of guidelines that were established and the ones that the corporation was working under previous to that.

MR. PARSONS: The corporation wasn't working under guidelines, we were working under the Act, and until these guidelines were drawn up basically we didn't have a set of guidelines to make references such as these do. We operated strictly under the MDC Act. This is the first time, to my knowledge, that the corporation has had a guideline so to speak.

MR. AXWORTHY: In what way would the guidelines themselves differ from the Act or the kind of instruction or terms of reference that the Act would set out?

MR. PARSONS: Well basically if you read through them 3(a) is a good example. At one time the board of directors alone could make the decision if they wanted to advance ongoing funds because a company was in trouble and they just kept advancing and advancing, they could do that withou referring it back under the Act. And it happened in the past, you know there was maybe good money sent after bad. So what this has done -- now if we get back to the situation where it's

(MR. PARSONS cont'd) . . . . a refinancing or an over-run in capital, our board of directors would authorize the loan and advise the Minister so that if at some point possibly the minister or the government thought that we were just doing this to try and . . . we were just doing this to try and save it rather than doing it on a business basis, they could give us their advice on it.

MR. AXWORTHY: Well, Mr. Parsons, I think that was one of the questions I wanted to raise, particularly under Section 3(a). My reading of the Act indicates that the board of directors of the corporation was a relatively autonomous group but operating as do most Crown corporations with a high degree of nearly self-control and responsibility for making decisions. As I read 3(a), it indicates to me that in fact the board has almost become an advisory body where it is now being asked basically to make recommendations or advise the government on the nature of the investment portfolios or the advancement of money beyond certain risk areas. Now does that basically change the intent of the Act, and has it also changed the mode of operation, or really the position of the board of directors into an advisory body as opposed to a decision-making body.

MR. PARSONS: No, I don't think you're interpreting it correctly because this does not come into play on normal loans for normal equity investments. The only time that this comes in, if a company has a shortfall and needs more funds on a program, then our board would look at it, and advise or pass it on that basis, and the minister advised. It doesn't really change the automomy of the board, because it very seldom comes into effect.

MR. AXWORTHY: Could you give us examples of where it has come into effect?

MR. PARSONS: Yes, I did. Flyer, Saunders and William Clare, the three that I can recall that have, and they're ongoing projects that have required, or are requiring quite large funding and we, our board of directors, reached the stage that the responsibility for the ongoing financing has actually gone back to . . .

MR. AXWORTHY: I find that a little, just a little confusing though, Mr. Parsons, in terms of requirement, I suppose, in government to focus the center of responsibility somewhere and you're saying now that we have a board of directors which has the legal responsibility under the Act ostensibly for making decisions, except in extraordinary situations where there is a shortfall or a requirement for serious extra funding, at which point the responsibility is transferred back to government based upon recommendations. So in effect, does that mean that really the Act itself should be amended to include that provision that in those circumstances you're no longer the locus of responsibility or hold accountability for those decisions in those areas. And I would just add to that, that it seems to me, my understanding of the operation of most board of directors is that they are given full responsibility in all situations because if their shareholders therefore don't like the way they've responded to crisis, or to the need for extra loans, and they get turfed out. In this case it seems you can pass the responsibilities back to the shareholders, in effect, if the government is typing itself as the steward for the shareholders in this respect. And I'm just wondering how that particular, and if there's a little bit of legerdemain, kind of, seems to be operating under these guidelines in that respect.

MR. PARSONS: You might be able to interpret that way, yes, but really in effect, as I say, other than those three companies, it hasn't affected our operation whatsoever. We have currently a responsibility, our MDC board had turned the responsibility back to the shareholder if you so wish, on Saunders. It is the only one it has.

MR. AXWORTHY: Yes. The point I'm trying to come to is that we in the Legislature, in the Assembly itself, must have some understanding as to who's responsible for making these decisions and one of the questions that's always posed to us is that in effect investment decisions, or in this case the advancement of further funds, is a responsibility of MDC. Now we're saying it gets transferred back into government hands.

MR. PARSONS: Well the government has always been able to do that under Part 2 of our Act. That is not new. All we've done with Saunders, we have asked them to take it under Part 2 of our Act, then they make the decisions, we look after the funding the same as before. But that provision's always been there. That is in our MDC Act now. As a matter of fact we have Leaf Rapids was funded under that, and there's been . . . That is not new.

MR. AXWORTHY: Okay. So, in effect, you're saying then that there really is two areas of decision then: one, that you would consider the normal kind of investment decisions, at which point the MDC board works autonomously without reference to the Minister or to Cabinet, or anybody else; but in areas where in the judgment of the board the kind of commitment that would have to be made by MDC would be extraordinary, or of a particularly risky

(MR. AXWORTHY cont'd) . . . .nature, then you pass that back to government to make the decision, based upon recommendation. Is that a fair statement of the . . . ?

MR. PARSONS: It doesn't work quite that way but with Saunders, for instance, when the investment is becoming so large, and there are a lot of socioeconomic development as well, then I feel an account such as that should be referred back. It is involving a lot of money There is definitely a social economic consideration to be taken, which our board basically do not look at. They look at it on a business basis, and this is why, you know, it was turned back, or given back to the shareholder as you stated, on that basis. This is the only one we have done. . .

MR. AXWORTHY: I see. You mean that you would refer down there into section (c) of, I guess 3(c) then, where you say that once the participation becomes in a sense based upon criteria other than economic, social, political, whatever it may be, then you pass the responsibility back to government. Is that right? And that they then have to assume the responsibility based upon criteria other than our economic risk, or so on?

MR. PARSONS: Yes.

MR. AXWORTHY: Are those things spelled out. I mean when you go through that process of recommendation, reference back, do you spell out reasons, rationales, and say in the case of Saunders, would you write some aid memoir or memorandum to the Minister saying, this is no longer an economic proposition but if you want to provide certain social benefits to the community...

MR. PARSONS: No, we don't outline those.

MR. AXWORTHY: You don't outline those. So there's no record of rationale for the basis of when you transfer responsibility back to the government then?

MR. PARSONS: No. As I say, there's only been the one account that it has happened on.

MR. AXWORTHY: I thought you said there was also Flyer, and others. Saunders is the only one so far then where this has happened?

MR. PARSONS: It's gone back under Part 2, the other ones are still under Part 1.

MR. AXWORTHY: I see. But again in each of these cases of transfer back you haven't put out a rationale for it, based upon the fact that it's no longer economic . . .

MR. PARSONS: No. As I said, the examples of Flyer and Clare were ones where they had to . . . we financed beyond the original program. Therefore under this guideline, our board made the decision to do the financing; it was referred over to the Minister, we advised him of our decision. If he had said, no, or he had taken it to the government and they said no, we don't wish you to carry on because it is beyond what the original program was, they could have stopped it under this guideline. We did not transfer any responsibility on William Clare or Flyer Industries back to the government, but we referred that to our lending . . .

MR. AXWORTHY: But they could have vetoed those decisions in effect. Is that what you're . . .

MR. PARSONS: . . . the guidelines we did, we were going beyond our program, beyond our original amount. Really why this was put in here, I think, possibly in the past there had been some accounts where the MDC Board had used social reasons for sending good money after bad to try and keep a company going, to maybe help out a political situation or a social situation rather than a business. So this guideline was developed so that our board didn't get involved in trying to . . .

MR. AXWORTHY: Could you give me some examples of where you would see the criteria of a political or a social situation being the determination of the loan?

MR. PARSONS: Not right offhand but there . . .

MR. AXWORTHY: But there are some, are there?

MR. PARSONS: In the past ten years, there has been some. I think eventually . . . Columbia Forest Products I guess is probably a pretty good example. They wanted to keep that industry going down there and the loan eventually got up to over $4 million. There really wasn't a great deal of economics involved in putting more capital into that. At the time that they did it, the board went ahead to do it because they were trying to keep a business going in southeastern Manitoba where there wasn't really much in the way of industry and it's pretty hard to go back and substantiate on a straight business basis, and I think the board was probably doing it more on a socioeconomic basis to keep the people working down there rather than looking at whether they were really going to get a dollar return for a dollar invested. That is the type of thing that our board shouldn't be doing. If there's going to be money put into an

(MR. PARSONS cont't) . . . .area to maintain a business just for social benefits, then that is a government decision not a MDC board decision. So that's basically what that was put in to cover.

MR. AXWORTHY: Just perhaps one final line of questioning, Mr. Parsons. Again, because I am I guess concerned about this question of who is accountable for making decisions, and what is the criteria for making them. Would it not be appropriate in those instances where the Board of MDC decides that an investment or an advancement of funds cannot be justified upon some economic criteria, investment criteria, that such reasons should be set out on a memorandum that would be available so that when the time comes to try to affix responsibility that you would, as a board would know, you would say, here is our advice, here is the situation where if we put another million dollars and it's only going to create ten jobs, that really isn't you know, we're not going to get a return but it will create 10 or 15 or 20 jobs, and therefore it may help this community. Should that not be a part of the normal business arrangement that if you are transferring your responsibility back to the shareholders there should be some rationale set out as to why you . . .

MR. PARSONS: Yes, we do - well we make a recommendation back with it. We don't always lay out all the reasons. I think they are probably fairly obvious.

MR. AXWORTHY: Well but they may be obvious; who are they obvious to, I mean, because in a sense you trace the line of responsibility back to this kind of amophous thing called shareholders. It does come back to people who are, you know, public of the province, who I think are generally kind of confused oftentimes why MDC is doing what it's doing. If there's that kind of rationale, you know, if those things could be explained, and the criteria set out saying when MDC decides not to invest in Saunders and all of a sudden the government announces that it is going to advance two or three million dollars to it, there should be some basis for saying, why is MDC not doing it, but why is the government doing it? So we know - not that there's necessarily opposition because people may agree with the social objectives, the political objectives, but the fact is we should know. And wouldn't that be a procedure that could be established, or should be established?

MR. PARSONS: It could be. I don't know that there would be very much to be gained by it because we do - when we turned back that we did make a statement; because of the number of dollars involved that we felt that it should be turned back, and I think the Minister made a statement on that at the time.

MR. AXWORTHY: Okay. Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: There a number of questions, they're sort of not related, and if I could sort of just deal with them.

First I wonder, in just one general observation, not an observation but really a question. When you examined the statements of '72 - 73 and '73 - 74, there is really a significant change in the number of directors. I think there's five in '72 - 73, and five in '73 - 74, that is five different ones in each case, and I wonder whether you can comment if the changes come about either as a result of government changes or as a result of someone being replaced, or someone not wanting to remain. But I wonder if you can comment on how the corporation can provide true accountability with, you know, almost half of its members changing over a two-year period, in terms of the continuity of the positions of the corporation with respect to equity investments particularly and the problem areas that the corporation has always had to deal with in the last few years. Is there not some difficulty because of the lack of continuity for real accountability on the part of the directors and assumption of responsibility with respect to what has taken place?

MR. PARSONS: Yes. Basically though it's a fairly demanding board to work on and if we can get people to work on it conscientiously for two years, they've given a pretty good contribution. I'm looking at the ones that dropped out; there's various reasons, some because of the demanding work. It would be great if we had continuity, I agree with you. It would be a far easier job if we had the same directors but as you know, it's a demanding job, they not only sit on this board, a lot of them sit on our equity account boards too. It's quite a demanding position and if they give two years, which is what their appointment's for, and they don't wish to run again or be re-elected, or reappointed it is, there's not too much we can do about it. But at least they're pretty well all busy businessmen.

MR. SPIVAK: But in terms of a corporation whose total involvement with respect to the economy of the province is fairly significant, and again not getting involved in the particular personalities at this stage or the problems of one or the other - that's not my purpose in asking the question - do you really feel that there can be the kind of accountability, public accountability, as opposed to normal accountability by directors that a board can really undertake with the kind of changes that have taken place?

MR. PARSONS: I think so, yes. Some board members are very responsible and they realize their responsibilities. I don't think there's any of them back off a responsibility at any time. No, they're very conscious of their responsibilities, I don't think that is the point really. As directors of MDC, they do take a lot of flak and, you know, it's not the nicest board to sit on but these fellows who do sit on the board they take a very responsible position.

MR. SPIVAK: May I ask this question? How long - and again, this is I know information that's probably been made available - how long have you been on the board?

MR. PARSONS: How long have I?

MR. SPIVAK: Yes.

MR. PARSONS: April of 1970.

MR. SPIVAK: So that's approximately five years. Okay.

In the example that was used, I guess by Mr. Axworthy, with reference to Saunders, and I know we are going to be dealing with Saunders as a separate company. I don't particularly want to deal with that in a substantive way. I just want to understand, are you suggesting that there has never been consideration by the board, other than in the kind of directive that you referred to, in which there's been an indication of the government of a position, there has never been any consideration by the board of the social economic and political factors with respect to the enterprise?

MR. PARSONS: Not with Saunders, no. The basic proposition was all considered on a business basis that the operation would be viable.

MR. SPIVAK: I want to put this to you very frankly, Mr. Parsons. Are you suggesting that the board - and I'm not talking in terms of the MDC board - never considered the political ramifications of what it was doing with respect to the loan and increased equity participation, outside of any directive that may have been given by the government, or referral to them ?

MR. PARSONS: I see, you're going back to 1970.

MR. SPIVAK: Well, you've been on the board for five years.

MR. PARSONS: Yes. At the point that we . . . I remember when we visited Montreal when they were working down there, and we were looking quite desperately at that time to put an industry into Gimli, into the old air base. It fitted. It's not the easiest place to put a business in. At that time our MDC board were looking for a support industry for Gimli. That didn't have anything to do with politics really. It was an economic consideration that we took. At the time that we went to Gimli we could have also had a hangar out at Winnipeg Airport, and probably started there. It probably would have been less money, and saved Saunders money in the long run had we put the business there. But the economic situation was such in Gimli that I know that the board considered that if we brought this fledgling company from Montreal to put into Gimli, it was to save an economic situation up there. Yes.

MR. SPIVAK: Well the political consideration being that there was some important economic value to going . . .

MR. PARSONS: Yes.

MR. SPIVAK: I accept that. But I'm now really trying to understand the board's operation with respect to the decisions that it had to make on an economic basis with respect to its viability at various stages during the period of time that you were a member of the board of directors, as to whether the impact of a decision not to proceed having invested X amount of dollars at a particular time, that the political impact of that was not considered by the board without any particular reference to the government.

MR. PARSONS: No I don't think so. Once we'd established we were working on the actual viability of the company.

MR. SPIVAK: Well did you not, at one point, have a . . .

MR. PARSONS: Oh, at one point you look at it, and it's a marginal thing and it's a high risk venture, it's a high dollar venture to go into the aircraft industry, yes.

MR. SPIVAK: Did you not look at its receivership or liquidation possibilities at one stage?

MR. PARSONS: No, we never have really looked at it . . .

MR. SPIVAK: It was never presented to the board at all for consideration?

MR. PARSONS: No. I suppose when each board member is considering it he might . . .

MR. SPIVAK: No, no. I meant in a formal way.

MR. PARSONS: No.

MR. SPIVAK: It was never considered by the board? And there was no political consideration given to the continuation of the enterprise. It was done basically on an economic basis during this . . .

MR. PARSONS: Yes, if it had got to a political then we would have done what we have done now, which is turn it back to the government for their consideration. Then if it was weighed by them that the social economic benefits were of value to keep it going, they would keep it going on that basis. But we didn't consider that.

MR. SPIVAK: All right. I wonder if I can turn to another matter at this particular time. Can you tell me at this stage, how many loans or equity companies are in receivership right now in number? Do you recall?

MR. PARSONS: Loan or equity companies in receivership?

MR. SPIVAK: It's a question of really bringing it up to date at this particular time. Well, you may not have this at the present time. All I'm concerned with . . .

MR. PARSONS: I just want to get your question clear though. You're talking about companies that have gone into bankruptcy and receivership that we had an equity investment in?

MR. SPIVAK: Well, I want to sort of put two . . . It really is a double barreled question, and I wanted to sort of separate this. I wasn't talking about bankruptcies at this point. I am now only talking in terms of receiverships. How many loans - and I'm not particularly at this point interested in the companies, I realize it's on page 14 I guess - but it was a question of bringing it up to date to this period of time and that information may have to be furnished at the next meeting or is not available..... But how many loans, coming to individuals to which loans of the MDC have been given, are in receivership, and included in that how many of those companies would be companies in which we have had equity? And then the next question Mr. - because it's a double-barreled question - how many have been put into bankruptcy, as opposed to receivership?

MR. PARSONS: All right. We will have to sort that out and I'll bring it back to the next . . . all right. Do you have the answers? --(Interjection)-- I have that too but I'm not too sure that that answers his question though. That's why I . . . Give me a second and I'll take a look at this . . .

MR. CHAIRMAN: Possibly if, when we proceed to go on these various companies statement by statement, we might be able to deal with it. Mr. Green.

MR. GREEN: Well, Mr. Chairman, I wonder if the Leader of the Opposition will permit an interruption at this point because I know that statements being made by chairmen of the boards, I want Mr. Parsons to . . . While a question may mean one thing to the questioner and one thing to the answerer, I don't want there to be any misunderstanding in the suggestion that there is misleading information. Mr. Spivak asked whether at any time the board - at least I'm trying to recall it - considered the possibility of Saunders not being advanced further money and going into receivership, or being wound up, and the chairman said that that was not the case. I'm not sure how he understood the question, but I believe that he should not . . . we should not misunderstand that there was a request for $9 million approximately a year ago, which the board did not agree with and the possibility of winding up was implied in that disapproval and if the chairman does not include that, then Mr. Spivak will be suggesting that there has been misleading information given to the committee.

MR. SPIVAK: Just so I understand that. You're saying a year ago, which would be in 73, is that correct?

MR. GREEN: 74.

MR. SPIVAK: 74. All right. But prior to that there was never any consideration by the board of receivership or winding up?

MR. GREEN: Not to my . . . and that's why I want to make sure that there is no misunderstanding between the question and the answer. And I do not know whether the

(MR. GREEN cont'd) . . . chairman would normally go into each consideration, but since if it is not done at this time there will be a suggestion that there is misleading information, I don't want Mr. Parsons to be in an embarrassing position of it being suggested that he did give misleading information.

MR. SPIVAK: Yes. I think though, I think to be fair, we're talking about one company at this particular time, and a company that has certainly been in the news, and certainly been a subject of controversy, and political controversy - and again, because it is a subject of political controversy, I think I want to just be clear. I accept what the Minister said that there may have been last year a consideration, and that's fine. But I want to understand in terms of the, you know, the period from 1970 coming up, that there was not a consideration on the part of the board of political factors but rather it was on an economical basis with respect to the enterprise.

MR. GREEN: Well, you know, I hope that Mr. Spivak will then again not think that I'm interrupting or trying to hamper his questioning. I'm trying to be helpful. Prior to the guidelines, the board was charged with the responsibility of all considerations and when the use of the word political is mentioned it may have different meaning. The guidelines established that if social and economic factors are the only basis then that would be referred to the government because the board should not be making political considerations, and that was part of the guidelines. What was in the mind of each board member up until that period with regard to the establishment or the continuance of an industry, were not as defined as they were after the issuance of guidelines.

MR. SPIVAK: I think, I want to make it very clear. I'm now not talking about what an individual board member may have thought in terms of his own individual decision as to what has to be done. I'm now talking about the collective action of a board, that the political considerations were discussed and agreed to, and that's a very different thing to what Mr. Green is suggesting. What motivates a person to make a decision on what and how he supports and doesn't support something can be based on any number of reasons - he may like airplanes. Those are not the factors I'm becoming involved in. What I am concerned about is establishing from Mr. Parsons that the board itself considered this, collectively, in terms of reference as an economic decision and the political consideration was not there and that was the way in which they handled it.

MR. PARSONS: I understood your question.

MR. SPIVAK: I don't know whether there's any . . .

MR. PARSONS: My other answer still stands.

MR. SPIVAK: All right, that's fine up to this point, that's fine. With respect to receiverships and bankruptcies, I'm not sure . . .

MR. PARSONS: Yes, we have three. There was three bankruptcies since our last statement. None of them were equity accounts. I'll now give them to you. These are up to February 28th, 1975. There's Crankshaft Industries Limited, the amount outstanding was \$177,000. There was Media Village which is a small little operation, is \$22,750. And there's Verne Labs Limited for \$28,190. We had no equity in any of those and those are the ones that are in receivership.

MR. SPIVAK: Receivership or bankruptcy?

MR. PARSONS: They're in receivership.

MR. SPIVAK: Are there any in bankruptcy?

MR. PARSONS: I don't believe so.

MR. GREEN: Is Unicity Steel bankrupt?

MR. PARSONS: It was in the last statement. That has now been wrapped up and we collected in full on that.

MR. SPIVAK: No but again, you see . . .

MR. GREEN: . . . that was in receivership and . . .

MR. SPIVAK: I wanted to draw the distinction between receivership and bankruptcy . . .

MR. GREEN: I just asked . . .

MR. SPIVAK: No, no, but basically we're really only talking about receiverships. There have really not been any bankruptcies then, or have there?

MR. PARSONS: During the year?

MR. CHAIRMAN: Order please.

MR. PARSONS: There could have been some that have been completely closed out by this time. All right I'll take that as notice then because I'll have to look back to see . . . to cover your bankruptcies.

MR. SPIVAK: Well I want to come back to Page 14 with respect to Loans Receivable in Receivership.

MR. PARSONS: Yes.

MR. SPIVAK: Those are receiverships. There is no bankruptcies included in this report as far as I can see. What I would be interested in would be not just in the information up to date with respect to loans receivable in receivership, which you have already indicated an additional three, I want to find out what companies have actually gone into bankruptcy as opposed to receivership.

MR. PARSONS: Yes, I understand your question. All right, fine. I'll take it as notice and we'll come back. . . I'll have it for you.

MR. SPIVAK: I know there will be other questions probably related to these items that others may ask. The next item I'd like to deal with would be the question of whether during the five year period in which you've been involved, you considered that the board in its dealings with applicants in which there was loan requested, or money to be borrowed was requested, or in which there were propositions of both equity and money to be borrowed, that you, now as chairman and you then as a director of board, considered that the board was acting as a lender of last resort only.

MR. PARSONS: Yes.

MR. SPIVAK: You consider that that was the position, you were always acting as a lender of last resort?

MR. PARSONS: Yes.

MR. SPIVAK: The people who had applied had at that point exhausted every possibility of financial arrangements to be made?

MR. PARSONS: Yes. In our application we ask this type of question , if in fact it could be financed by outside sources. There's many cases over the last five years where our account officers have helped them work up their statements. Basically these are possibly smaller companies that aren't very sophisticated. We've worked with them, drawn up their statements and actually had them financed by a bank or some other financing institute because they have, when they've got all the documents together, been able to get financing. We ask this question, if they've tried elsewhere, and really when you take a look at most of their statements it is quite obvious that it's not a bankable loan that they're asking for or it's not one that they have sufficient security they can go to a normal financing institute for. And I say, if it is, we have referred them and have actually worked and got them bank loans or loans from one of the regular financing sources.

MR. SPIVAK: But would you not suggest, without getting involved in particular loans at this time, that in fact you did loan money to people or to concerns that would not be classified or could not be put in the position of coming to the Development Corporation as the lender of last resort?

MR. PARSONS: Well there it might depend on the size of the project they're looking at. They might have been able to get funds to a certain amount from a normal banking source but largely if we got into that it was because they couldn't get sufficient quantity of funds to go with the normal financing. You could probably class Dryden Chemicals in that. The company probably could have raised a certain amount of funds but not sufficient to put up their plant, so it was done through the MDC. Simplot was probably in that category . . .

MR. SPIVAK: Again, I accept that. I'm now talking about the period from 1970 on really, the period of time when you were a --(Interjection)-- No no because there . . .

MR. PARSONS: I wasn't trying to be . . .

MR. SPIVAK: No no, but I think . . . my point is being that you've been on the board for five years . . .

MR. PARSONS: Yes, right.

MR. SPIVAK: And during the period of time, and I'm now talking in terms of the period of time that you've been on the board, when there was a change from the Manitoba Development Fund into the Manitoba Development Corporation Act, that was in 1970, I just want to understand that you believed that even with the various loans and loan and equity matters, that the Corporation at all time was dealing on a basis that it was really a lender of last resort and

(MR. SPIVAK cont'd) . . . . . that people had exhausted their financial possibilities before they were successful in receiving a loan from the corporation?

MR. PARSONS: I would say so. Our staff is so instructed and our account officers look at that very carefully. I would say that to my knowledge there were not any who would fit in the category of where they might have got it from a normal financing institute.

MR. SPIVAK: You think this was the understanding of all the members of the board . . .

MR. PARSONS: I would say so, yes.

MR. SPIVAK: Was that ever decided at a board meeting?

MR. PARSONS: Oh, well the Act of course states that, therefore every board member's familiar with the Act. It states . . .

MR. SPIVAK: Can I ask, the staff was instructed you say on this. Was it instructed by the general manager or was it instructed by the board. In other words . . .

MR. PARSONS: The general manager, our staff all know what it says in the Act too, and they follow that.

MR. SPIVAK: And Dr. Briant, I guess, was the general manager at that time.

MR. PARSONS: Dave Rogers is acting general manager, then Dr. Briant and myself, yes.

MR. EVANS: Mr. Chairman, I wonder if I could interject a question just to help the Leader of the Opposition. The application form, is there not reference - I stand to be corrected - but is there not one question which asks whether or not you have approached other financial institutions?

MR. PARSONS: I don't know whether it's actually in the application form, but certainly we ask the question.

MR. SPIVAK: Well, but again, this is your belief, or your understanding what the board accepted and . . .

MR. PARSONS: This has been discussed in our various, well the last three years at our various seminars the fact that we are a lender of last resort. There's several board members that, and myself, - when a loan becomes good people will often go outside of us to borrow their funds, whereas if we could accommodate them we could get some good paper on our books as well.

MR. SPIVAK: Well can I ask, did this apply as well - did this apply as well to those loans in which there had been an original loan and extension was asked, an extension or additional funds were asked for. Did you still consider your position at that point still being a lender of last resort or because there was some involvement, was there an acceptance that the continuation of that was acceptable without the basic policy of being a lender of last resort?

MR. PARSONS: Well most of them that come back for further funding are probably not any better off when they got the first funds so they're not likely to be able to go out and get it outside . . .

MR. SPIVAK: You know that's a logical deduction, but I want to understand whether the actual fund or the actual corporation and the officials basically examined the records, the financial position, and examined the possibilities before any submission was made to either the loan committee and then ultimately to the board for extensions, they basically accepted that there was an obligation on their part to put themselves in the position of seeing that the companies had in fact exhausted all other possibilities and were really dealing with the corporation on the basics.

MR. PARSONS: I would say so, yes.

MR. SPIVAK: That's all at this time, sir.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Parsons, Dr. Axworthy was asking about the autonomy of the board and the guidelines inhibiting that autonomy. My understanding is that the need for guidelines and the drafting of the guidelines and the agreement regarding the guidelines, was by the Board of Directors and the representative of the Government, the Minister.

MR. PARSONS: Yes, that is correct. Our Board asked for the guidelines.

MR. GREEN: And did not the guidelines merely attempt to clarify the position of the financier, that is the public of Manitoba, and the board of directors that were guiding the operations of the company?

MR. PARSONS: Yes.

MR. GREEN: Ultimately I would presume that the government would have this authority by its control of capital funds which it could use in the absence of guidelines which would be

(MR. GREEN cont'd) . . . . . a much more intimidating kind of inhibition to the board of directors.

MR. PARSONS: Uh huh.

MR. GREEN: So have the guidelines been a problem for the board or an assistance to the board?

MR. PARSONS: No, the guidelines were questioned by the board and laid out in consultation with the board on their request and this has certainly been an aid to the board. -- (Interjection) --

MR. CHAIRMAN: Well I thought you were finished.

MR. SPIVAK: There's one question I completely forgot about.

MR. CHAIRMAN: Well I'll put you back on the list.

MR. SPIVAK: That's fine.It's not related to . . .

MR. CHAIRMAN: Is it related?

MR. SPIVAK: No. You see, what I want to do is . . . I forgot one area that I wanted, but I'll come back.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: In regards to Page 6 in the report under your comments Mr. Parsons, you indicate that substantial amounts of new capital are needed before MDC can be scaled down, and I'm wondering how much is that substantial amount of capital that is required, how much is that?

MR. PARSONS: You're referring to Page 6?

MR. MINAKER: Yes, I believe you indicated that in your comments there that - on the first paragraph there.

MR. PARSONS: Oh, I see, yes.

MR. MINAKER: "It should be noted that a substantial amount of new capital is still needed and will have to be advanced before the corporation will be in a position to scale down the amount of capital authority required."

MR. PARSONS: Well when we're talking about new capital, our capitalization right now is at $5 million, and our authorized capital, in order for us to become self-supporting we would have to have enough capital to cover all our equity investments. At the present time our equity investments bring us no interest back, whereas we are paying the province the going rate in interest; and also we have large losses that have been carried forward that we are funding out of capital account. Basically we're talking probably 45 to 50 million dollars to cover those two items.

MR. MINAKER: So you would need additional . . .

MR. PARSONS: No. . .

MR. MINAKER: . . . 45 to 50 million dollars capital?

MR. PARSONS: We wouldn't need additional funds. We would need our borrowings converted to capital and that would cover us; then we wouldn't be accruing these large interest charges that we're having to pay back to the government out of borrowed capital. That is what I was referring to here. I think Mr. Ziprick in his audit report again this year states the same.

MR. MINAKER: Our leader indicated earlier in some of his questions how many companies were in bankruptcy or in receivership. I'm wondering if in the interim period, on Page 14 the actual list of loans receivable in receivership, could Mr. Parsons advise us how many of these companies are now in bankruptcy? I would presume, Mr. Chairman, that either Mr. Parsons or his assistants must surely know . . .

MR. PARSONS: Yes, we know which ones are bankrupt.

MR. MINAKER: . . . in a yearly report of what the present status of those particular companies are.

MR. PARSONS: You see there basically at this particular point have not been - these were actually in receivership. Until the receivership is really carried through to a bankruptcy they're still classed as being handled by a receiver.

MR. MINAKER: That's what we're asking is, are any of those that were in receivership a year ago, are they now, any of them, declared bankrupt and settled?

MR. PARSONS: Well we can start right at the top: Advance Lighting, they're still operating; that is still in the hands of receivership. Columbia Forest Products is not settled as yet. Cowl Ltd., we sold the Cowl assets . . . there's no bankruptcy in that?

MR. GREEN: It is possible and sometimes indeed likely that a receivership will not wind up in a bankruptcy.

MR. PARSONS: No, oh no.

MR. GREEN: If the creditors don't see any money there they won't declare them bankrupt because that costs money too.

MR. PARSONS: Yes, most of these don't.

MR. MINAKER: No, we appreciate that, but I think we're getting the value of the information right now that the chairman is passing on to us, he's giving us an up-to-date status of . . .

MR. PARSONS: Yes, and I should make that clear, that a lot of receiverships go right through and we will wind up the company without it ever going into bankruptcy.

MR. MINAKER: I appreciate that.

MR. PARSONS: So we could run through them. General Machine, it's not in bankruptcy. There's none of them have gone into bankruptcy. Unicity Steel Corporation is paid up completely, disposed of the assets and cleaned it out. Prairie Foundry will be wound up without going into bankruptcy. There weren't sufficient funds there after all the assets were sold to clean up our account, so it won't go into bankruptcy either. I think that covers them all. Lighting Materials will not go into bankruptcy. There weren't enough assets to carry it through. It'll be wound up in this next year. As a matter of fact we have furnished reports to the receivers, these will probably be all wound up in the next three to four months.

MR. MINAKER: Thank you. Also on Page 18 and 19, I wonder if Mr. Parsons could advise us of those companies listed there, how many of them are now in receivership?

MR. PARSONS: I'd have to run through them. Could I take that as notice because I'll have to go through them and check them. I don't know offhand.

MR. MINAKER: Mr. Chairman, Mr. Parson's assistants wouldn't have this information available?

MR. PARSONS: We can get it.

MR. MINAKER: I mean at this time. Because it would surprise me that they wouldn't be aware of, in the report, you know, basically the condition of those particular accounts.

MR. CHAIRMAN: All right.

MR. MINAKER: . . . I understand that there is a month to month check of the status of the accounts.

MR. CHAIRMAN: Well, we're basically supposed to be dealing with the Annual Report.

MR. MINAKER: That's what we're dealing with, Mr. Chairman.

MR. CHAIRMAN: Fine. At that stage I don't imagine that was the situation.

MR. MINAKER: We're talking about the situation today, Mr. Chairman, not back in March 31st, 1974.

Mr. Chairman, if Mr. Parson's assistants are working on it, I have two other questions relating to the report. I wonder if Mr. Parsons could advise us who Canadian Occidental Petroleum Limited is and what the 2.84 million is proposed for in this particular report, because I . . .

MR. PARSONS: They took over the Dryden Chemical.

MR. MINAKER: They are the Dryden Chemical people?

MR. PARSONS: Yes. Occidental Petroleum bought the Dryden Chemical Plant. So we switched the paper over to them?

MR. MINAKER: So they're operating under the name of Hooker Chemicals then?

MR. PARSONS: Yes, Hooker. Going back to your other question. In its report of assistance granted of course there's two receiverships in there. Hallgrimson of The Pas Forestry Complex and F.G. Patrick for Columbia Forest Products. The only other one in that was the Unicity Steel Corporation, $40 thousand, which of course is cleaned up. We put more money in but when we wound the whole thing up we got 100 percent back on it. They're the only ones.

MR. MINAKER: Thank you very much, Mr. Chairman.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Chairman, I think all of my questions have been answered in this discussion of Page 14 and during the last 20 minutes, so I will simply pass. I had intended to question Mr. Parsons on Unicity Steel Corporation which he has explained has been wound up and all of the accounts have been paid. I was just wondering what period of time elapsed

(MR. McGILL cont'd) . . . . . between the time they guaranteed a bank loan and the time that the company went into receivership. It seems to have happened fairly quickly there, in between some time prior to March 31st, 1974. Do you recall the date on which it went into receivership?

MR. PARSONS: No I don't.We were supporting that company on and off right through its program though.

MR. McGILL: But some few months before the receivership occurred you guaranteed a bank loan I see?

MR. PARSONS: Yes, it was a four-months term. We supported them as I say throughout their contracts, as they took various contracts. That's why it shows a four-month term. It was on a specific contract. And we were funding them on and off on a guarantee basis for various contracts. This happened at the time - when this $40, 000 was lent it was on a four-month term. Right after that guarantee, maybe during that particular contract was when they ran into their problems.

MR. McGILL: Oh. So that when you guaranteed that loan it was with the prior knowledge that you were facilitating the dispersal of the assets and . . .

MR. PARSONS: No. Not necessarily. It may have happened that quickly in construction. They went into a contract, we may have guaranteed the loan and within three months they could have run into problems that they were put into receivership. There was a management problem. One of the partners had moved over to London, England and that created quite a problem within the organization. They could have liquidated themselves I think if this one partner hadn't left the country.

MR. McGILL: One other question, Mr. Parsons. On Page 19 it shows a loan to Kenn Perkins Animation Limited. Can you tell me just briefly what that company does?

MR. PARSONS: No I can't. It's a small loan. The account's been completely up to date since we lent this. I don't see the non-problem ones that much. I'm not familiar with that particular one. I will find out.

MR. McGILL: That loan would not have been approved by a meeting of the board of directors?

MR. PARSONS: No.

MR. McGILL: That could be approved without ever coming to your . . .

MR. PARSONS: My assistant has approval rights up to $75, 000. 00.

MR. McGILL: To $75, 000. 00?

MR. PARSONS: As a matter of fact that one could have been approved by the Manager of the Loan Division. He has approval rights up to $35, 000. 00. Staff have ranges where they go through - actually a loan officer although basically they always bring them back to the Management Committee, do have rights up to $10, 000, the individual loan officers.

MR. McGILL: So, Mr. Parsons, Media Village was one with a small loan. Was that loan made and then difficulty encountered and the company go into receivership without you ever having participated in the decision of making the loan?

MR. PARSONS: Yes.

MR. McGILL: And what about Verne Labs, would the same apply to that?

MR. PARSONS: Yes.

MR. McGILL: Does this experience make you wonder whether or not this kind of arrangement is satisfactory. There are so many loans made in one year that they couldn't all be duly inspected by the Board of Directors.

MR. PARSONS: They really are. I gave you, in theory, the loan officers have this but it's very seldom they will ever do that without coming back to the Management Committee. I am not a member of the Management Committee, my assistant is the chairman of that committee. They review these loans. I don't know of any instance that a loan officer or even the manager of the Loan Division has made a loan without it coming back to at least the Management Committee. I think I can state that categorically. Can I . . . ? My assistant says that he has seen every one of these coming through.

MR. McGILL: So your assistant would probably know what this Kenn Perkins Animation Limited is all about?

MR. PARSONS: Do you know what they are? -- (Interjection) -- What is it, an advertising company? They do animation, the animation is film animation.

MR. McGILL: It's film animation, is it?

MR. PARSONS: For advertising.

MR. McGILL: That's television advertising, I take it?

MR. PARSONS: It wouldn't necessarily have to be television - is it primarily? -- (Interjection - only advertising)

MR. McGILL: Fine, thank you.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I just have a few other additional questions for Mr. Parsons, some catching up on previous statements, some on new ones. I'd like, if I may, Mr. Parsons for a momentjust to return back to your statements in the earlier part of our discussion about the fact that in particular the loan that was made to Saunders Aircraft was in the consideration of the Board not economically viable and because it was not economically viable you recommended to the government that if they had other criteria, social or political, that they would then have to take on the responsibility of advancing the money. Is that a fair statement?

MR. PARSONS: I didn't say it wasn't economically viable. I said for the number of dollars that we were getting involved in in advancing this company and the length of time it would take for really getting the dollar back, and marginally the profitability of the company in the first years, that this is basically why our board turned it back to the government. It was a marginal high-risk operation that was involving a lot of government money.

MR. AXWORTHY: Yes, I think that's the point I want to focus on for a moment. That we're now in a situation where under these guidelines, the board recommends back to the government certain investment or loan proposals when the economics of it aren't sound as they should be. And yet we have in the earlier part of your report two statements: One, the need to develop the corporation on a rational financial basis; and secondly, in Part II of the guidelines where the Corporation is to concentrate on the administration of its funds with a view to reaching a point where the fund is self-sustaining on a revolving basis, no additional capital authority is required, etc. It seems to me if you're still in the business of having to act as an agent for government investment based upon questionable economic criteria even though the social and political ones may be quite valid, doesn't that contradict the objective set out in terms of trying to develop on a sound rational basis and also to get to the point where you're self-sustaining?

MR. PARSONS: Well, of course, if the government, once they take over, they're funding it under Part II of the Act. We wouldn't be responsible for the interest charges. I think we'd segregate that part, we look after the administration of the funds.

MR. AXWORTHY: So you would simply be the transfer agent, in effect, on those funds?

MR. PARSONS: Yes. Under Part II what we do is administer the funding.

MR. AXWORTHY: How would that work in the case of Saunders where the Corporation has already advanced a large amount of capital to it. Do you hold the outstanding . . . well I guess you hold all the shares at this point?

MR. PARSONS: No.

MR. AXWORTHY: You don't hold all the shares?

MR. PARSONS: 80 percent.

MR. AXWORTHY: 80 percent of the shares. So that you're a major shareholder in that company but you're also acting as an agent for the government in giving it additional sort of money for good works, kind of thing?

MR. PARSONS: Yes.

MR. AXWORTHY: Doesn't that begin to complicate your financial accountability on things again if you're sort of really acting in a dual role - you're the beneficiary and the benefactor?

MR. PARSONS: It doesn't really complicate the accounting for it. It may complicate the thinking of why you're doing it that way.

MR. AXWORTHY: Yes, you see, this is what I'm coming to. I'm not trying to pull scabs off old wounds, but we have gone through in Manitoba a situation where there was a problem of not really effective safeguards or lines of responsibility where what was in the Manitoba Development Fund was giving money to a fairly large investment basically to cover its own tracks and yet it was also acting as the agent of those funds. So what I'm coming down to is, you are a major shareholder in Saunders, it is obviously to the interest of a major shareholder to try to maintain the viability of that operation and yet you on the other hand are

(MR. AXWORTHY cont'd) . . . . . making a judgment call as an agent of government thatit's not economically viable so they should start putting good works money into. So it means you're really a beneficiary where you don't have to take any of the responsibility of a major shareholder in that company for their problems, and that really complicates frankly the . . .

MR. PARSONS: No, it doesn't complicate it. It would complicate it more if it didn't happen.

MR. AXWORTHY? . . . comes back to again though the role of, are we acting as an economic investment operation or as a good works operation, and it seems to me when you are trying to do two of them for the same agency, you're never sure at what point in time are you acting as a hard-nosed calculator of economic interest or one in which you are trying to say we've got to maintain this community or provide that . . .

MR. PARSONS: No, it's really not, because you - as I say, we are only into one company at this stage and it's not hard to separate the business judgments from your socially - we're not making social or economic judgments on our board or our staff. When it gets to that stage that's when we turned it back to the government when we felt that was their decision for the number of dollars . . .

MR. AXWORTHY: Well it may be fairly clear to you, I'm not so sure it's clear to me, and maybe I'm just being obtuse or something,but again it strikes me that you're acting kind of as, to use the old legal phrase, judge and jury.

MR. PARSONS: No, we're not. We didn't make the decision. We turned it back to the government. They made the decision. At that point.

MR. AXWORTHY: You're operating, in the case of Saunders as a major shareholder, so you obviously have a pretty vested interest in trying to maintain the operation of that company so it doesn't go belly up at some point or other. Now as a Board of that though you're saying economically it doesn't make much sense to continue. The only way we can get bailed out is if we get what I call good works money.

MR. PARSONS: No, that money is still going in.

MR. AXWORTHY: And so you say, boy this is a good way to get out from under, eh?

MR. PARSONS: No. The money still goes in there and they're still paying interest on it. So really it's not doing what you say. It's not good works money, it's not a grant.

MR. AXWORTHY: I thought you had said in an earlier statement though that in this case it wouldn't become part of your portfolio, that . . .

MR. PARSONS: Oh yes, it's part of our portfolio under Part II of the Act.

MR. AXWORTHY: Okay. So you've got it separated out at that point.

MR. PARSONS: Uh huh.

MR. AXWORTHY: And the interest, who would be paying the interest on that loan?

MR. PARSONS: Saunders.

MR. AXWORTHY: Saunders? They'd still be paying the same interest?

MR. PARSONS: Yes.

MR. AXWORTHY: Okay. This I think comes back to a question, in terms of this relationship between the, now that you're acting really as an advisory group to the government in this particular area of investment, what kind of - going back to the commission report on CFI where they proposed several safeguards so that we wouldn't repeat the kind of situation we got into there where there is that somewhat murky area of who's making decisions. Have you looked at those safeguards and attempted to apply them in terms of these kind of situations to your own operations?

MR. PARSONS: Yes.

MR. AXWORTHY: So they are now in place, with safeguards recommended by . . .

MR. PARSONS: They have been for quite some time.

MR. AXWORTHY: Since when,at what point?

MR. PARSONS: That goes back to, three or four years anyway, well at least since I've been Chairman. Before that too, the safeguards came into effect were with CFI,they were relying on an outside party to okay invoices and they weren't relying on their own staff. We have a staff function that we're in constant contact . . .

MR. AXWORTHY: Looking at payouts and all the rest of it.

MR. PARSONS: Yes.

MR. AXWORTHY: Okay. Another question I have, Mr. Parsons, is, in a sense it's on the other side of the question that the Leader of the Opposition was making in terms of this

(MR. AXWORTHY cont'd) . . . . . role of lender of last resort. I think he was saying really when a company or potential group comes to you for a loan you ask them what other sources they've explored beforehand. On the other side of the ledger, where does the dividing line develop between a last resort loan and just simply as you call it, "bad paper". At what point does that happen, that you simply say you're not acting as a lender of last resort in what may be, where do you determine the viability or potential viability of those kinds of propositions you're getting into?

MR. PARSONS: We have to analyze each one separately. There's no hard and firm guideline on that. Our account officers analyze each man's application. We take a look at it, see what he could do, we analyze his managerial qualities, take a look at his product, how he's going to market it and see whether it really has a chance of making a go. We also take a look what security he has. We're not really a lender of no resort, we try to get as much in the way of security as we can. We look at people's backgrounds, see what they've done before. If they have a great list of bankruptcies behind them we'd probably shy completely away. If they've been good business people that just need extra dollar help, then that's to their credit. So each application, I don't think I can tell you there's a hard guideline, we have to look at each one. We can take a look at it and say we will go beyond what a normal Bank, Whereas a normal bank they might look at it and say we'll lend you thirty, forty, fifty percent on your inventory and maybe fifty or sixty percent on your receivables, we'll take a look at it and say all right maybe we can lend you more than that.

MR. AXWORTHY: I guess the point I was also trying to reach though when you're making decisions on this, is it based upon some equation in the mind of the Corporation solely on the business possibilities of this investment, or do you take into account things like the location of the proposed business, the number of jobs it might produce in the province, the kind of impact it may have in certain regions or communities. Are those things taken into account at all?

MR. PARSONS: Not by, no, not - basically we try to do it on a straight businesslike basis. When it gets down to very marginal and there's certain areas of the province you'd like to see developed, as a developing agency we can do this. Our account officers try to do it and give a good business judgment decision on the type of loan.

MR. AXWORTHY: Is there any differentiation made in these investments between the kinds of business. I notice just doing some rough pencil work when you talk about, I guess on Page 23, Increased Capital Investment, Employment and Production, that in fact you get a much higher number of jobs per dollar when you invest in small businesses than when you do in bigger ones. At least that's what my rough calculations show. Is that a fair assessment?

MR. PARSONS: Yes, because usually the smaller ones are not as sophisticated. They don't require as many dollars.

MR. AXWORTHY: And they're more labour intensive.

MR. PARSONS: Yes.

MR. AXWORTHY: Does that become part of your own internal guidelines?

MR. PARSONS: No.

MR. AXWORTHY: Well, again that comes back, what's the corporation trying to do. Just to invest, or is it trying to . . .

MR. PARSONS: We don't balance our loan necessarily by the number of jobs involved. Certainly we take a look at that.

MR. AXWORTHY: Is that a criteria you use though, in terms of the amount of that loan?

MR. PARSONS: Not for our loan officers. Basically they will make their report on a business basis only. Then they will list the other criteria that it'll do for the area and depending what's going in that area. We've looked at financing hotels and motels and there's not a particular need, you know, just create more competition, if we went out and financed them. Say they put another hotel in Brandon. We take a look at the market there and say well the existing ones there are only at 60 percent occupancy. This fellow may be a real good operator. We wouldn't particularly be enthused about financing him if it was going to put somebody else out of business in that area or there wasn't a particular need for it. So we do take a look at those things. The account officers take a look whether there's a need in the community for that type of business. It's part of their responsibility.

MR. AXWORTHY: How would this work for example, in the case of Crocus Foods where the trade-off is your providing some employment in one area but may in fact be having the effect of what would be to close up operations in others.

MR. PARSONS: Well Crocus Food hasn't been a decision of ours. Crocus Food is under Part II of the Act and that has strictly been a government decision, completely outside of any . . .

MR. AXWORTHY: So MDC had no real role in making a decision on Crocus Foods?

MR. PARSONS: The only role that we had - we're given the figures to work over to see if it's economically sound, that type of thing. Not the decision on whether it goes or does not go.

MR. AXWORTHY: And you made no recommendation at all to the government in this respect?

MR. PARSONS: Not on whether they should build a whey plant or not, no.

MR. AXWORTHY: They in fact said we want to build a whey plant and came to you for some economic calculations. Is that the way it worked?

MR. PARSONS: Yes.

MR. AXWORTHY: Okay, Mr. Chairman, if I may, I just have two other short questions. One is in the report itself. I was properly impressed by your description of the role of the Board of Directors and I'm wondering why in the financial statements we didn't have some recording of remuneration fees or some pay to the directors for all their work. Do you not pay them at all, or do they . . .

MR. PARSONS: Yes, they're paid, they're paid . . . They are paid.

MR. AXWORTHY: Why would this not be included in the financial statement?

MR. PARSONS: We just changed that. They vary on our different boards. Our MDC board directors receive $3, 000 a year, that covers 15 meetings. Over and above that . . .

MR. AXWORTHY: What was that figure again?

MR. PARSONS: $3, 000. 00.

MR. AXWORTHY: $3, 000. 00 a year?

MR. PARSONS: Per annum. That covers up to 15 meetings. Now several cases will go beyond 15 meetings throughout the year. If it's a half day meeting they receive $35. 00 extra; if it's a full day meeting they receive $55. 00.

MR. AXWORTHY: Would you have a rough figure of what the fees would be over . . . the aggregate total?

MR. PARSONS: Of the aggregate total?

MR. AXWORTHY: Of directors' fees. Anyway it may be something you can just take into account because I don't want to hold up the meeting. -- (Interjection) -- An Order for Return? Okay.

Mr. Parsons I just also have one further question that goes back to the report on Page 17. I guess mainly because I get twitchy when we start talking about Swiss accounts and loans and Swiss sort of debentures and so on, but there's a curious kind of statement about the fact that you have a debenture outstanding which is being paid in Swiss Francs and that at the prevailing rate of exchange it resulted in an additional liability of 5. 9 million dollars. And I suspect that would even be higher now because as I gather the Swiss exchange rate has even gone up further these days, which has not been recorded in the corporation's accounts. Why would not such a substantial amount not be recorded, and why would we not be taking some action to offset what is obviously a major cost of the corporation by holding that particular set of debentures.

MR. PARSONS: Well, it was debentures that were issued and we got the Swiss funds at the time at a very good interest rate.

MR. AXWORTHY: You had the Swiss funds at the time. I wouldn't want to . . .

MR. PARSONS: This goes back . . .

MR. AXWORTHY: That must be a switch.

MR. PARSONS: Well, it was a good sale at the time. Because of the change in the exchange rate of course, it's costing us more money to buy the Swiss dollars to pay it back. That's what it's referring to in here. So our interest rate although it was good at the time it happened - what was it, 4 percent? -- (Interjection) -- Six percent.

MR. AXWORTHY: Shouldn't that though be recorded in the contingent liabilities which you have at 31 million. Shouldn't that 5. 9 million be part of that just so there's a clear accounting?

MR. PARSONS: No, as long as it's stated in the report that's all that's necessary. We don't know whether it's a liability; it varies with the exchange rate. Next year it might, depending upon how the rate goes, it could be eliminated in fact. But it's stated. It's not a true liability until the time we have to meet it.

MR. AXWORTHY: Okay, thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Thank you, Mr. Chairman. First question - there are several questions I would like to ask of Mr. Parsons. No. 1. In last year's, that's as of March 31st, 1973, statement Micro-Com Electronics, a Beausejour Company, was in that report as a loans receivable and under a loans receivable and equity investment. I don't see it anywhere in the statement. Could you tell us what happened to that company?

MR. PARSONS: What page are you looking at on . . .

MR. BANMAN: Last year's . . . '72-73 Annual Report.

MR. PARSONS: I have that here too. What page are you on?

MR. BANMAN: On Page 14.

MR. PARSONS: So we're looking at the same . . .

MR. BANMAN: Page 14, the one second from the bottom.

MR. PARSONS: Oh, Micro-Com?

MR. BANMAN: Yeh.

MR. PARSONS: Micro-Com went into bankruptcy.

MR. BANMAN: Not into receivership, into bankruptcy?

MR. PARSONS: Yes. It was, pardon me, just a minute, the boys say no. Was it into receivership? -- (Interjection) -- All right. Pardon me. They voluntarily liquidated.

MR. BANMAN: Was there a loss to the Manitoba Development Corporation on that?

MR. PARSONS: Well, we have personal guarantees which we are attempting to collect under, of the principals. That is still under way.

MR. BANMAN: How many other companies . . . is this the only one that we wouldn't see on a report, that this has happened to?

MR. PARSONS: Yes, I think the others are all . . .

MR. BANMAN: I'm just wondering if . . .

MR. PARSONS: I don't know just off hand . . .

MR. BANMAN: . . . I haven't done a close check, I just noticed that company, but I'm just wondering if there's any other companies that do appear on the statement and all of a sudden we don't see what happened to them.

MR. PARSONS: No, I don't think there are any others. Well, my staff doesn't think there are any others either.

MR. BANMAN: Could you get us a little more information on that company, or . . .

MR. PARSONS: Yes, we can get you the information on it, and what the loss is.

MR. BANMAN: Another question, Mr. Chairman. I notice that the Manitoba Development Corporation pays the expenses of the CEDF Fund. Does the corporation have any control over the expenses that that Fund incurs as far as the operation costs, or does the CEDF just give you a figure and you pay it, and that's it? There's no questions asked?

MR. PARSONS: They draw up a budget that's approved every year by their board.

MR. BANMAN: How about by your board?

MR. PARSONS: No, not by our board. All we're doing is their accounting.

MR. BANMAN: So you just . . . they bring in the statement . . .

MR. PARSONS: Their board submits a budget and it goes through, yes.

MR. BANMAN: So you have no control over their budget at all?

MR. PARSONS: No. We only control the outgoing funds and do the accounting for them.

MR. BANMAN: A final question. I notice in the remarks, the Member for Fort Rouge asked several questions on it, with regard to Crocus Foods. Is this set up under Part II of the Act?

MR. PARSONS: It will be. Part of the funds that we advanced under Part I, and I understand . . .

MR. BANMAN: The funds that you have advanced to date are basically of a nature to study the feasibility and possible viability of that plant, eh?

MR. PARSONS: Yes.

MR. BANMAN: Are there any further discussions under way right now as far as

(MR. BANMAN cont'd) . . . . . Manitoba Development Corporation is concerned for extra funding of that corporation, or of that company?

MR. PARSONS: No. They haven't used the funds that we had originally set aside for that.

MR. BANMAN: That's for the viability studies and that?

MR. PARSONS: Yes.

MR. BANMAN: Is this like a Crown corporation this company or . . .

MR. PARSONS: It will be, yes.

MR. BANMAN: How would you compare that company?

MR. GREEN: Maybe I can help you, I'm not sure . . .

MR. CHAIRMAN: Mr. Green.

MR. GREEN: . . . that Mr. Parsons is aware, but my present information is that there is no intention of the government to use the Manitoba Development Corporation under Part II with regard to Crocus Foods, that that will be done, if done, entirely separately of the Development Corporation. I mean, I don't know that Mr. Parsons would know that, and therefore I am giving Mr. Banman that information.

MR. CHAIRMAN: Mr. Blake.

MR. BLAKE: Thank you, Mr. Chairman. Mr. Parsons. In the report last year there was a Valley Motor Lodge $250,000; it doesn't appear this year. Has that loan been transferred to Riding Mountain Holdings, and could you tell me something of the transaction?

MR. PARSONS: Yes, there was a sale by the people and . . .

MR. BLAKE: It's a new company now?

MR. PARSONS: It's a new company, yes.

MR. BLAKE: With an increased amount?

MR. PARSONS: Yes.

MR. BLAKE: Could you tell me, are the payments on that account up to date?

MR. PARSONS: Yes.

MR. BLAKE: They are

MR. PARSONS: Yes.

MR. BLAKE: Fine, thank you.

MR. PARSONS: It was a straight change of ownership.

MR. CHAIRMAN: Shall we proceed with the page by page reviews? Mr. McGill.

MR. McGILL: Mr. Chairman, I just have a couple of questions here based on Page 18 and 19, the report of assistance granted, or to be granted during the year. Mr. Parsons, the loans and guarantees that were made on behalf of the Receiver-Manager of The Pas Forestry Complex, what sort of supervision or control do you have over those loans and advances and guarantees? Do you exercise the same controls and investigations as you do in other types of loans under Part I?

MR. PARSONS: As this was the Receiver-Manager, we get a report back on what the funds are being used for.

MR. McGILL: Do you concern yourself in any way with the manner in which the funds are used?

MR. PARSONS: Basically they haven't - yes. Any judgments or settlements that come through on the complex come through us.

MR. McGILL: So the Board of the Manitoba Development Corporation would receive these applications and deal with them much the same way as they would deal with applications for, say, Flyer Industries or . . .

MR. PARSONS: No, they're not - I don't know whether you could class them as an application because they're cleaning up past accounts. This is not the operation of the complex, per se.

MR. GREEN: Mr. Chairman, again to Mr. McGill. As of late, in any event, Man-For has been set up as a self-operating board under a separate Act, and of course the board of directors of that corporation has been treated specially by calling them directly to the Economic Development Committee, as we intend to again this year, to report to the Committee directly.

MR. McGILL: Well my question to Mr. Parsons was simply that it is listed along with other loans and guarantees in Part I, and I am just asking for his assurance that they have exercised the same close supervision and investigations on these loans as they would on any other loan, or are they simply, when they receive a request, passing it on as an obligation or

(MR. McGILL cont'd) . . . . . an understanding that they will advance them as they are requested by them.

MR. PARSONS: You see, the Bank Loan Guarantee for $2 million was never used. He thought that they would need that for the operation, to fund the operation. As it turned out when they got in operation they were able to generate enough cash on their own. So that $2 million was withdrawn this last year. There is another 1.9 million, that he'd used when he was setting up the operation, that is still outstanding to us, and that was a straight operational on which he reported - by order we advanced him the money to operate the complex. That goes back I think probably a couple of years. He has received no advances from us. We have cleaned up several of the outstanding accounts for the complex on advice of counsel.

MR. McGILL: Well these two loans I see were made in 1974, up to March 31st, 1974 at least.

MR. PARSONS: Yes, but they're up to that time, but they may have been before that too. As I say there's 2 million sat there for two years. He never did use it. In any case we do look at reports from the Receiver.

MR. McGILL: Well I assume that these two loans were made some time between April 1'73 and March 31 '74.

MR. PARSONS: If you look in the 31st of March '73 statement there was about ten different loans made to Halgrimson payable on demand, some of which we collected back, others that weren't used. I can't say that we would look at them the same as we would an ordinary loan. We look and see what he's using the money for.

MR. McGILL: He would supply an application to you for the loan, outlining the needs of the Receiver in respect to it?

MR. PARSONS: Yes, we get a monthly statement from him.

MR. McGILL: All right. Mr. Parsons, there's another one under Part I, a bank loan guarantee to A.E. McKenzie Company Limited. I understand that there's been some change made in the way in which credit, or loans, are extended to McKenzie's. Did that take place during 1974, or was it in the current year?

MR. PARSONS: The change took place in the current year.

MR. McGILL: And how is it now arranged? Is it under Part II of the . . .

MR. PARSONS: Yes.

MR. McGILL: . . . so that it won't appear in your statements until . . .

MR. PARSONS: It will appear 31st of March '75.

MR. McGILL: Can you bring us up to date on that account?

MR. PARSONS: Yes. Under Part I, I think it was 6.3 million and there is 2 million under Part II and another million since the 31st, sir. No, there'd be 3 million under Part II. So the total outstanding is 9.3 to A.E. McKenzie, 6.3 under Part I, and 3 million under Part II.

MR. McGILL: The 6.3 then were . . . the only bank loan guarantee that's listed here is for $700,000.00. 6.3 was prior to this, eh?

MR. PARSONS: Was prior?

MR. McGILL: Was prior to this statement.

MR. PARSONS: I'd have to check back. I don't know whether in total it would be prior.

MR. McGILL: Would it be possible then, Mr. Parsons, to get a statement outlining the advances under Part I and Part II up to date on this account?

MR. PARSONS: . . . and the dates that they were made, yes.

MR. McGILL: All right. Thank you.

MR. CHAIRMAN: (Pages 1 to 13 were read and passed) Page 14 . . . Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I just had some questions about the number of these companies which are in receivership, or their loans are in receivership, and I'm just wondering really for purpose of information if you want to go a little bit . . . time, or what's your discretion, because there's only about two minutes left in terms of our normal time.

MR. CHAIRMAN: Pardon me.

MR. AXWORTHY: Okay. I'd like first then to ask a question on the loans outstanding to Prairie Foundry. Could Mr. Parsons tell us when the loan was made to Prairie Foundry, and who were the officers of the company at that time?

MR. PARSONS: Yes. They go back over a number of years. I'd have to take that as notice, Mr. Axworthy, because I don't have the dates.

MR. AXWORTHY: Was there any change in the operation of that company do you recall during that period?

MR. PARSONS: Any change?

MR. AXWORTHY: Yes. In the last year or so?

MR. PARSONS: Not any change. There was a cut-back in their operations to some extent. No, they're not operating any more, the company's all wound up, and the company's all sold . . .

MR. AXWORTHY: The company's all wound . . .

MR. PARSONS: The receivership should be wound up very shortly.

MR. AXWORTHY: I see. And you have - what return did you receive off that . . .

MR. PARSONS: Oh, we'll take a substantial loss on this one.

MR. AXWORTHY: You will, eh?

MR. PARSONS: Yes, this goes a long way back. There's a large build up of that amount . . .

MR. AXWORTHY: By a long way, do you mean what, three years, five, ten years?

MR. GREEN: Before '69.

MR. AXWORTHY: Before 1969. I see.

MR. GREEN: Most important date.

MR. AXWORTHY: That seems to be an important date in our mind, yes.

MR. PARSONS: No, it goes a long way back and a lot of the money was a build up of interest charges, and so on, but we will take a substantial loss on that.

MR. AXWORTHY: Thank you Mr. Parsons.

MR. CHAIRMAN: (Pages 14 to 24 were read and passed) Let's see your . . .

MR. JOHANNSON: Before you finish things off, I assume . . . are we going, after we complete this, are we going into the individual,

MR. CHAIRMAN: No, I think that the questions have been dealt with and material -- (Interjection) -- information is made available.

MR. GREEN: I think that you misunderstand the question. Mr. Parsons has indicated that he will be distributing the information on the various companies in which we have equity, and I think Mr. Johannson is asking whether the members are going to have an opportunity of talking about those companies.

MR. CHAIRMAN: I'm sorry.

MR. JOHANNSON: That was my question, Mr. Chairman.

MR. CHAIRMAN: Was that your question, Mr. Johannson what is the . . .

MR. JOHANNSON: All I'm asking is that, I wanted to catch you before you passed the whole report because I wanted - I have questions on a specific company . . .

MR. CHAIRMAN: If you have a question, proceed, Mr. Johannson.

MR. GREEN: Well, Mr. Chairmank perhaps we . . .

MR. JOHANNSON: You're not answering my question. If we pass the report now, does that mean that the committee is finished consideration in these matters?

MR. GREEN: Mr. Chairman, may I suggest a procedure. May I suggest that we receive the report subject to further discussion on the companies in which there is an equity. So I would then move that the report be received on that understanding.

MR. CHAIRMAN: Is that agreed? The report be received subject to the questions on the specific companies that you have a list of.

MR. MINAKER: Or any additional information that might arise.

MR. GREEN: That's right. I have no intention of limiting the discussion. The report is received and if members have questions with regard to the loan accounts or the equity accounts . . .

MR. CHAIRMAN: I would just assume that we have completed it.

MR. GREEN: Well, you're very optimistic in that . . . Is it the disposition of honourable members that we rise to meet again, is that . . .

MR. CHAIRMAN: Is it the disposition that we rise . . .

MR. GREEN: Okay. I don't care.

MR. McGILL: I think we'd like to have an opportunity, Mr. Chairman, to review these statements that have just been handed to us and we'd be prepared to proceed with the review of the individual statements at the next meeting.

MR. CHAIRMAN: At the next meeting? Committee rise.