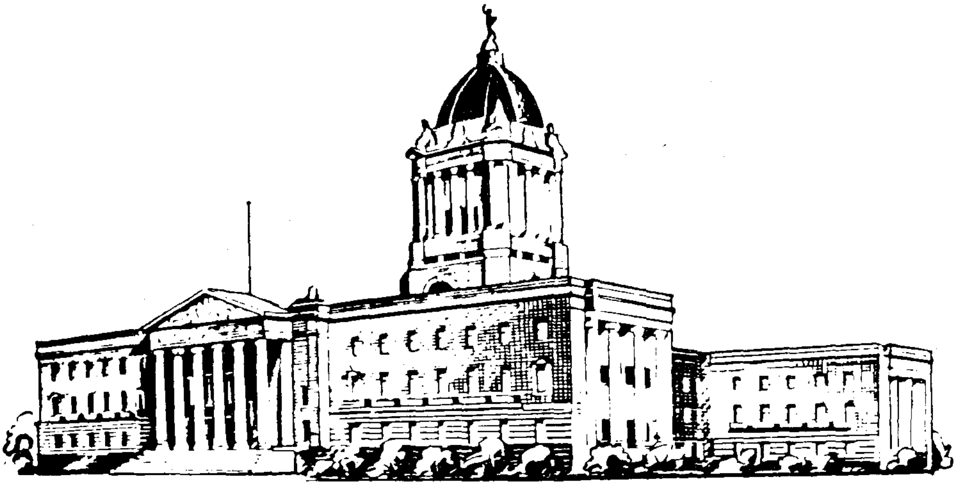
Legislative Assembly of Manitoba

HEARINGS OF THE STANDING COMMITTEE

ON

ECONOMIC DEVELOPMENT

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



8:00 p.m., Monday, June 9, 1975.

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ECONOMIC DEVELOPMENT COMMITTEE
8:00 p. m., Monday, June 9, 1975

CHAIRMAN: Mr. Harry Shafransky.

MR. CHAIRMAN: The Committee will come to order. We have a quorum, shall proceed with the Annual Reports from the Leaf Rapids Corporation, the Communities Economic Development Fund and McKenzie Seeds. I'm going to call upon the - yes, Mr. Green.

MR. GREEN: The order that we would like to proceed in would be McKenzie Seeds first, since Mr. Clement is from Brandon, followed by Leaf Rapids, followed by the Communities Economic Development Fund.

MR. CHAIRMAN: Fine, if that is the wish of the Committee. (Agreed) I'm going to call upon the Minister of Industry and Commerce to introduce the Chairman of McKenzie Seeds Ltd. Mr. Evans.

MR. LEONARD EVANS: Thank you, Mr. Chairman. In case some members of the Committee have not met the Chairman, I'd like to introduce Mr. R. A. Clement, Q.C., a lifetime resident of Brandon and a barrister by profession but one who has had considerable experience in business investment and a person who has been very active in community affairs both in the social and in the cultural fields. He is a member of the City Council of Brandon for six years, a member of the school board for six years and as well has been very active in other local boards and commissions. It's my pleasure, therefore, Mr. Chairman, to call upon Mr. Clement at this time to introduce the Annual Report for the McKenzie Seeds Corporation for the fiscal year ending October 30th, 1974.

MR. CHAIRMAN: Fine. Are there any Annual Reports to be distributed? While the Clerk is distributing the reports I would call upon Mr. Clement to introduce his Annual Report. Mr. Clement.

MR. R. A. CLEMENT: Mr. Chairman, members of the Committee. When I accepted the office of Chairman of the Board of Governors of A. E. McKenzie Company and its subsidiaries a year ago and appeared before your committee shortly thereafter, I had hoped to bring you a complete turn around of the company at this time and to show what I hope the company has inherent in it, a degree of profitability that would be very pleasing to every resident of Manitoba. You will see by the statement that you have in front of you this goal was not achieved by the time of the last Annual Statement, October last year. The company has experienced some problems, as I suppose many companies have. Some of the problems are inherent in our economy, some are peculiar to the industry. One didn't fall into either category, and that was a fire where all our inventory was destroyed three years ago. The company recovered I think well from that injury. The customers were very understanding; we were able to supply most of them their minimum needs and carried on our business without too much of an interruption of confidence.

But since then the inroads of inflation and the high cost of borrowed interest or capital, the high cost of interest on borrowed capital, has been very difficult to support. In trying to support these two things McKenzie and subsidiaries have made some very positive steps. For example, in 1972 there was a gross profit of 44.21 percent. This was increased by 5.45 percent to 49.66 percent in 1974. In 1972 the expense percentage to sales was 61.06 percent. This was changed to 50.20 percent in 1974. In 1974 actual sales were increased by 21.37 percent over 1973. And before interest charges the expenses of doing business were subject only to an increase of 6.88 increase in 1974 over 1973.

You will be looking I expect at the consolidated statement in front of you. While you're looking at it perhaps I should remind you, as I have to keep reminding myself, that this company does most of its work in the packet seed division. It buys seed in bulk and packets it in its plant in Brandon in small packets for distribution, and it has I think the major distribution customers in Canada. Such names as T. Eaton Company, Safeway, Dominion Stores, Loblaws all distribute McKenzie seeds. These are rather attractively packaged and we have made certain adjustments in the planning of our sales approach which we think will be very significant. Part of the significance has been shown in this statement which you have but because of its seasonal business and the fact that Canada is a northern climate country which has one growing season for most vegetable and flower seeds we have one chance at the market and if we change something we usually have to wait for a year to two years before we have a result. So that the statement you have before you shows only a trend, it doesn't show the results of the planning that was done in the last year.

(MR. CLEMENT cont'd)

So I'd like to tell you a bit about the thinking and the planning that has gone into what we hope will change the profitability of McKenzie and subsidiaries. Because they had a distribution system, salesmen reaching over Canada and calling on distributors largely in the small store and grocery line, chain store line, we thought we should diversify and add a great range of agricultural products. We tried that. The initial tests were very successful; people responded to it, they bought the first tests we made. So then we increased our inventories of these diversified products, some of them convenience products and we found - at least my interpretation of what we found was that people who liked to garden liked to do the mucking about in gardening. They don't like convenience products. So we've ended up with a whole stack of convenience products on our shelves that are very slow to move. We've cut that out. We're going to stay out of that market because the people who buy vegetable and flower seeds like to muck about with them and grow them themselves, they don't want it the easy way. If they want it the easy way they buy the vegetables and they buy the flowers already grown. That's what we think.

Well then we thought perhaps we should diversify a bit nationally and internationally, so we went into the cut flower business. We had a wonderful relationship with some flower markets in Holland, CP Air flew over cut flowers to us every week. We distributed them largely in the Toronto market where the big volume is and where the airport is and initially we had a tremendous success with that. The store managers who handled these products, the cut flowers, by and large didn't feel that there was a co-operation there that they should continue to give. We phased out that part of our operation. We don't handle any more cut flowers.

We also had a plan that our suppliers of seeds who were largely in the southern United States and California were getting into a very high labour cost and that there was going to be a shortage of seed and a very high cost of it because of labour costs so we sought out an alternate market. We went to Mexico for that market because of their climate, because of the willingness of Mexican people to do work of that sort, namely cultivating and picking and harvesting seed and we embarked upon a partnership with a Mexican seedsman. I'm sorry to say that that has not resulted in anything that is of an advantage to McKenzie. We're still partners on paper in that project but actually we're simply keeping the partnership alive because there's a penalty clause if we walk away from it. We decided that the international market wasn't for us until we had our home market really secured and operating profitably.

We did something similar in the United States in a very small way with the Sabetha Seed Company. We found a very strategically located small seed company called Sabetha Seed Company in a little town in Kansas called Sabetha. We obtained an option to purchase this company on very favourable terms and we watched it for two years. We helped them a lot and I think they helped us a lot. We finally decided that they were better on their own and we were better on our own, so we have terminated that relationship and Sabetha Seed Company are returning to us the cash and advances of stock we've made to them and we're in a very friendly way calling it quits. They're going to concentrate on the American market around Kansas and we're going to concentrate on the Canadian market in Canada.

Now all those things I think are reflected in the figures you see on your statement but as is quite often the case in Western Canada, next year expects to be even more dramatic than this year.

I should tell you that in the last few months we have changed our senior management. We had in June of 1974, June and July of 1974 we had adopted a plan of what we were going to do for the next few years. In adopting that plan we recognized that in bringing Steele-Briggs and McKenzies together we had created a very large packet seed company, very large for Canada, and that the competition which had previously existed between the two companies no longer warranted us in clamouring for certain accounts which couldn't possibly be handled profitably. So we analyzed those accounts and we decided that we would handle them in a different way - and we're talking of the accounts who buy maybe $25.00 worth of seed during the year, maybe $50.00 worth of seed during the year. We decided we would make a small, a very small display of seeds which they could buy outright and put on their counter and serve their customers with this; or, they could buy from our catalogue system. We put a catalogue service in their stores so that they could use a mail order system. But that we would no longer service them in the same way that we could service a large account such as the Hudson Bay Company or Eaton's.

(MR. CLEMENT cont'd)

One of the reasons we had to come to that decision was that we were working under the provisions of The Canada Seed Act and the Canada seed regulations. Those regulations in effect provide that once McKenzie's or once Steele-Briggs puts their name on a packet of seed and distributes, if the germination factor of Canada No. 1 seed goes down to below an acceptable level of germination then not the retailer, even though he's bought the seeds from us and owns them at that point, but McKenzie's is responsible and seed inspectors can take the whole display of seeds out if there's one or two packages below germination factor. And since germination factors are affected by moisture, by temperature, by the storage in various environments that the seeds are kept in, it is very difficult to predict how long a particular packet of seeds will stay up to standard. So that McKenzie's, and most of the other seed companies in the world that we know about, have adopted the policy of putting out their packet seeds on consignment in the spring and then picking the unsold ones up in the fall. And only then are they paid for. They don't sell them outright. This in a period where working capital costs you so much money is a very expensive way of doing business, because we have to finance not only the seeds that are sold by our customers but also the seeds they keep on their shelf and return to us as unsold. So that our interest charges on borrowed money are very heavy, and part of our plan of operation has been to reduce this dependency on borrowed money by operating our business much more efficiently.

We found a seed company in Germany who I think is perhaps the ultimate in efficiency. They put their seeds out in markets and stores all over Germany and they have a return factor of approximately 20 percent. Some of them go down as far as 12 percent in Germany. Our average has been about 50 percent. Our main thrust now is to get this return factor down either by outright sale or by so analyzing the customer's needs, that we don't have to attack him with a shotgun, that we can actually put the seeds that he's going to sell in his store and not a number of surplus seeds we'll have to finance and take back again. That is beginning to show its results in the statement you see but it will not be fully apparent until this year and next year.

One of our directors, at his own expense, was over in Australia about two months ago, and with their long growing season and their innovative seed company there, they found in Australia that they could sell their seeds outright and they're all paid for through the seed company and they stand in the store shelves as the seeds owned by the storekeeper and not owned by the supplying company. Now this was tried in an experimental way by our company a year ago, hoping that if we could get acceptance by a large retailer that the Canada seed regulations could be amended to provide a reasonable protection for the public and not penalize the packager of the seeds. So a presentation was prepared for - the T. Eaton Company it was, Toronto - and we gave them very special discounts and benefits if they would accept and pay for all the seeds we packaged for them, and we found that this was absolutely unacceptable to the retail seed trade.

There are a number of reasons for that, but I think it's a matter of such importance that we're not going to give up on it; we're going to keep trying and see if we can't put our seeds out and be paid for them as we deliver them, because that's the answer to so many financing problems. It does seem ridiculous that you could produce a packet of seeds and have to sell it for five times what it cost you in order to cover the costs of handling it and transporting it and keeping it on a person's shelf and then taking part of it back again. It does seem an obsolete way of doing business and, if we can, we're going to change it. We have our General Manager here with me, and our Accountant here, and I know both of them are working on that problem.

Now perhaps I've talked enough for a few moments. You have had a chance to look over your statement, if there are any questions on the statement that I could answer. I must tell you I'm a lawyer and not a chartered accountant or bookkeeper, but if I can help you with the interpretation of any feature of it I'd be glad to try, except that we are in a competitive area and there are several companies looking at McKenzie's with the thought that they might purchase the thing so I'm sure you won't ask me to reveal anything that would be helpful to competitors.

MR. CHAIRMAN: Thank you, Mr. Clement. Mr. McGill.

MR. McGILL: Mr. Chairman, through you to Mr. Clement. I'd like to thank him for his explanations, and it's not a very encouraging story that you tell, Mr. Clement, on this year's operations. We have the statement here in front of us and we notice that sales have

(MR. McGILL cont'd) . . . . . increased from $12 million gross to $15.7 million and the profit was $8,000 on $12 million sales and it's now $438,000 loss on $15 million sales. So as sales increased, the troubles seemed to mount. I noted in the Financial Statement that there's a note that says that they have changed the method of valuing inventory, so if the statements were to be compared with last year it looks like your loss this year would be $810,000 instead of $438,000. Is that a correct assessment, Mr. Clement?

MR. CLEMENT: Yes, that's what the statement says, Mr. McGill.

MR. McGILL: Well the statement has that appended as a note. It shows the net loss as $438,000, but if we are to compare it with last year's performance we should use the figure $810,000 as the net loss. Am I correct in that?

MR. CLEMENT: Well, that's not all that it says. The statement indicates that the change in accounting method more truly reflects the condition of affairs. Now, I had discussed this with our former management, who is no longer with the company, and the suggestion for this change was that McKenzie's business is in packaging seeds. We have a subsidiary, Brett-Young, which is in the fodder seed business. They do very little packaging. In their statements they show this type of inventory at cost whereas in McKenzie, when we buy this type of seed, we usually improve it. We usually package it, grade it and improve it, so that actually while we're carrying this seed in inventory we have expended money on it, and it was suggested that we should show this inventory at its realizable value for cost and that this would more truly reflect the position of affairs whether it was higher or lower, and I think we would be consistent with that in the future.

MR. McGILL: Mr. Clement, without questioning the better, or the decision to change the method of evaluating inventory, I am merely suggesting that for comparison purposes in order to stay on the same basis we . . .

MR. CLEMENT: Oh yes; yes. And that's brought out quite clearly in the note.

MR. McGILL: Yes. Now, I wonder if we could just go through some of the matters that were brought up last year to see what has happened in a year. First of all the Mexican venture. Last year on June 5th you said, among other comments you made: "We think there will be a substantial recovery." What has been the experience from last year?

MR. CLEMENT: Well, there has been no recovery and there has been no loss. The matter is still in the hands of our attorneys for what our attorney has recommended in Mexico City, that is arbitration. I'm afraid things move very slowly there.

MR. McGILL: So there is really no change. In the interim there's been a question come up about a possible penalty of $500,000 that McKenzie Seed might be subject to in the settlement. Have you anything to indicate on that matter, whether that matter has been resolved or is it still in sort of the process?

MR. CLEMENT: Well, the penalty matter is a matter contained in a contract between McKenzie's and the Mexican company, which provides that if either partner withdraws from the agreement, then they would pay a liquidated damages to the other party in that amount. Since neither party have withdrawn from the agreement it's not effective, but it is perhaps one reason why both partners are staying nominally within the agreement. I must say that as far as we can ascertain our partner is not doing anything for us and we're not providing our partner with any services, not providing him with any money or technical assistance, nor has any been requested. I think the reason for that odd state of affairs is that there is a penalty if either one of us withdraws from it. I think we've both found that we don't get along with each other.

MR. McGILL: What your accounts suggest to me, Mr. Clement, is that you just lost $220,000, and if you go after it very seriously you take the chance of losing another $500,000.

MR. CLEMENT: Well that did occur to me and to others in our management, and we have asked the opinion of our Mexican attorney on that because these matters will be decided in Mexican courts. Our Mexican attorney feels that we are entitled, without any doubt whatever, to $220,000 from our Mexican partner, and that request for payment is not a breach of any of our partnership contract. I hope that's the case, but we have to rely on the opinion of our Mexican attorney, who has been very highly recommended to us by the Canadian Embassy.

MR. McGILL: Mr. Clement, would you then be, at this stage, prepared to repeat your forecast of last year: "We think there will be a substantial recovery"?

MR. CLEMENT: Well, as time goes on, I become more pessimistic about it but I don't think that my opinion of our legal rights has changed. I just have some doubts as to whether our legal rights can be effectively enforced in a Mexican court at this time. Our attorney

(MR. CLEMENT cont'd) . . . . . doesn't share that doubt; our Mexican attorney seems to be quite satisfied that we can recover this. I share your question as to this. We have, in fact, written it off so far as it being an effective asset is concerned.

MR. McGILL: I have no doubt the Mexican attorney will pursue this matter as long as his retainer is available to him?

MR. CLEMENT: I can only say on that that he's been very highly recommended to us by the Canadian Embassy.

MR. McGILL: May I proceed, Mr. Clement, to Sabetha Seeds of Kansas. There were some comments about that last year and you said in part here: "It seems from a report I received from one of our accounts about ten days ago, who made a visit there, that they are experiencing the same buoyant sales of seeds that the rest of North America is and that they are going to do exceedingly well. It may work out very well. If it doesn't, the cost to McKenzie's will not be serious." Has it worked out very well?

MR. CLEMENT: I believe it's worked out very well for Sabetha. Would you like a little rundown on Sabetha as to how I see it? I guess you would if you're asking me that.

Sabetha Seed Company is operated by one man who is also a real estate operator, salesman, and an owner or a part owner of the local bank. He's able to borrow money from this local bank at 8 percent interest. Among other things, he bought two to three years' supply of seeds for Sabetha, assuming that the cost of seed was going to be terrifically inflated, and he has that in inventory now. When we saw that, we decided that no matter how buoyant his sales were, that we would not be interested, at Canadian rates, financing two or three years' store of seeds, so we suggested to him that he buy back the option which he had given to us to purchase his business. After consulting with his wife, who felt that he would be crazy to do this, he did it, and he has purchased back the option which we held to purchase the shares in his business, and he will be returning, I think, $114,000 to McKenzie's, which we've invested in that option and in that business. We will neither make anything in dollars nor will he make anything in dollars from our association.

MR. McGILL: And your loss will be minimal, if any?

MR. CLEMENT: I don't think we will lose anything. It's set up to break even. He's given us contractual payments every - I think it's every six months, isn't it, Bill? Every six months he pays us and his payments are all current. And he has signed a personal guarantee on each of the payment guarantees, not only the company but his own personal guarantee.

MR. McGILL: Mr. Clement, that just leaves really the Holland venture in the cut flowers, and you did make some comments on that in your introductory remarks. Now what did that venture cost us during the past year?

MR. CLEMENT: Well, it cost us a diversion of management skills. It didn't cost us anything in dollars or investment as such, because the flower market in Holland is worked on a bidding arrangement and it's a rather odd arrangement. The bids, say, for a block of flowers will start at $5,000 - that's guilders, which I'm not familiar with - start at $5,000 and then there's a wheel that keeps going down and the bid will then go down to $4,900, and then the purchaser will be the one who places his bid as this descending bid goes down. So unless we put in a bid on the wheel we don't buy any flowers. We had an agent at that time over there who bid when we told him we had already sold carnations or Easter lilies or whatever to Safeway, or whoever was distributing for us, so that we didn't have any money tied up in inventory. We had a commitment for the wages of our representative over there and we made a fortunate deal whereby the balance of his contract was taken over by someone else who wanted to have his services. So actually we came out of it with a profit on the flowers that we had sold. But we found that our management skills and our salesmen's time were being spent going around the different supermarkets saying, "We have some lovely calla lilies this week; would you like some?" and not getting an adequate response to it. We've eliminated it.

MR. McGILL: You did also comment in your introductory remarks on the bad experience with the so-called convenience packaged garden materials. My question here is it seems strange to me that it took a major intrusion into this market and a major commitment to the market to determine what you told us about the acceptance or the lack of acceptance in the marketplace for this kind of a package. Surely there must have been some testing of the market done, some projections made, that would indicate whether or not this kind of thing would be saleable and the extent to which an investment and commitment should be made to get a return. It would appear that the company dashed off into this business with a pretty serious commitment and then suddenly found that the market wasn't there.

MR. CLEMENT: Well certainly that's the way it looked to me, but what actually happened was that management at that time - this was about three years ago - was casting around for some way to keep our seasonal forces active on a 12 months-a-year basis, and they had decided that we should be able to put products such as cut flowers, convenience products, Mexican-supplied vegetables, on the counters of all our customers all year round by diversifying. One of the very high profit items of this was these convenience products where you have seed packets with a little earth around them, fertilizer and optimum growing situations, so that people have to just put a little water on them or do a little something to them to get a good result. So our sales people tested these. They took them into the supermarkets; they put a few of them out on the counters; and while they were a novelty they went like hotcakes and we were overcome with our genius at discovering this. I wouldn't say myself, but the company was overcome by their genius in discovering this lucrative market. So we ordered a lot of them and we found that, like many novelties, the first batch went very very well. The second batch we couldn't sell.

MR. McGILL: Well, there have been a number of such ventures that were taken on with great enthusiasm and proved to be somewhat empty of profitability. Would you try to indicate to us why there have been so many management changes at the top level in the past six years at McKenzie's? No doubt this is related to this because no doubt, as management changed, new enthusiasms and new directions were taken, and one by one they seem to have had to be dropped or modified or changed and you, I presume, keep coming back to the basic thrust of the seed business which the late Mr. McKenzie pioneered and seemed to do reasonably well. He wasn't a big money winner but he kept a big business going in Brandon and got along. Would you comment, why have there been so many management changes at McKenzie's in the last six years?

MR. CLEMENT: I've only been associated with McKenzie's as Chairman for the last year so perhaps I'm not the proper person to comment on that with any degree of insight. The manager that I remember, the President, was Mr. George Skinner, and he had a vision of McKenzie's as being an international agricultural company and he made overtures to the Mexican people, he made overtures to European people, he made overtures to some of the great seed companies in the United States. He purchased Steele-Briggs Company, he purchased Brett-Young Company. He had some failures, but I think his success in purchasing Brett-Young and his success in purchasing Steele-Briggs will forever earn him his position as an expansion President and Chief Executor officer of McKenzie's. He was followed by Mr. Tony Maruca, who was a chartered accountant by profession and who had operated for some of the national feed and agricultural companies, and he brought accounting and office experience to McKenzie's when we needed to consolidate the expansion that had been undertaken by Mr. Skinner, the earlier president. Under his presidency the Steele-Briggs Company, which largely operated out of Toronto, their operation was almost wholly moved to Brandon and the actual packaging account - not the accounting yet, the accounting is just about to be consolidated, but everything else about it except the sales effort is now consolidated out of Steele-Briggs into Brandon.

Now we have Mr. William Moore, who is here with me now, who was trained in the Old Country, in London, in the schools there as an, I suppose one could use the term "a factory efficiency expert," and his role is to operate McKenzie's in a businesslike manner, to forget about expansions, to forget about diversification, but to operate the packaged seed division, the grass division, the onion set division and the mail order division, and operate them all in a profitable manner, at least break even but profitable, and without any more capital borrowings or anything of that sort. And this is the goal that McKenzie's have set themselves, and they set themselves that a year ago when I took over the chairmanship of the board. I think it's only after we get the basic business of McKenzie's operating satisfactorily and profitably that we should be looking for any further ventures. That's my view of it, and I sense from your questions you have something of the same old-fashioned notions that I have: you have to take a small step first.

MR. McGILL: Well it's encouraging, I think, Mr. Clement, to note that you haven't given the new manager the charge to go out and sweep the international seed markets and to dominate them, as has apparently been attempted in the past.

Mr. Clement, you said that the predecessor in the Chief Officer or General Manager's position was one who brought accounting skills to the firm. This brings me to the point about a $620, 000 accounting error that occurred under his tutorship. Would you explain how a

(MR. McGILL cont'd) . . . . . chartered accountant happened to be in charge of the company's affairs when this error occurred?

MR. CLEMENT: I must say that this was the first question I asked him, Mr. McGill. It's inconceivable to me that this could happen, but it did. In looking back on it, I can comment to you and tell you frankly what I assume happened, but perhaps I should first say that there was no accounting error involved, that our budget was not affected by this in any way, that our budget work has been as accurate as we could hope for. What happened, which had a great deal of press coverage, was that our cash flow position was underestimated in making projections of future requirements of actual cash in our bank account. Now I think, to say this properly, I have to say that in my memory of McKenzie's since the late A. E. McKenzie died, McKenzie's has never had any working capital of any significance, so that when McKenzie's bought Steele-Briggs Company Ltd., it did so without any money to buy it with and it borrowed the money to do this, and as interest rates have increased, the burden of carrying this borrowed money has increased. The interest is paid; McKenzie's always pays its interest, and it also pays the Manitoba Development Corporation a fee of one and a half percent, I think it is, for supervision of its guarantee, without which McKenzie could not borrow these sums. The current rates on our loans at the bank vary slightly but they run from twelve to twelve and a quarter, twelve and a half percent.

Now, paying these interest charges in cash every month has put a tremendous cash strain on the company, and when we were consolidating the accounts from Toronto in Brandon, the Steele-Briggs operation, we were putting the accounts receivable together - I think about a million dollars accounts receivable for Steele-Briggs added to a million dollars accounts receivable for McKenzie's, all of which were financed by borrowed money - the projections of how much cash we would need month by month to pay our suppliers was proceeding ahead. But it was underestimated, and our President realized that we were going to be short this much cash because of the timing factors involved. When we package our seeds at a certain time, we ship our seeds, we pay our freight rates and so on, this had accumulated so that there was a cash requirement - really nothing to do with our budget, just the timing of the matter of the amount that you estimate.

Now, what have we done? What has the Board of Directors of McKenzie's done about this? Well, we have a new Manager, a new General Manager; we have a new Comptroller; we have a new financial man, a new Treasurer. They have, between them, worked out controls, that they are quite satisfied. They have told me that they budget from week to week their cash requirements; they know exactly how much cash they require and they make an arrangement with suppliers so that the suppliers are paid on the basis of the availability of the cash. To make a very homely analogy, it's the same thing as I suppose people do at home when they decide to buy a new chesterfield. If they have to pay $300.00 for it, we now just don't do anything until we have the $300.00. Our banking is done on a week to week basis. It's not a pleasant thing to happen in a company where you think you have responsible management who are covering all bases, and all I can say is that I don't think it's going to happen again.

MR. McGILL: Mr. Clement, you said it was not an accounting error. My understanding is that accountants make projections, and when they make mistakes in projections, while it doesn't mean that they have lost money or misplaced it, it does mean that they've misled the management to the extent of not knowing what the cash requirements would be. So I would call that an accounting error in projection. But it may be a . . .

MR. CLEMENT: I don't, because I regard accounting as something you do when you have the facts, and a projection is something which you do when you're looking ahead and estimating. It was in looking ahead and estimating, both on a quantity and on a time basis, that this occurred.

MR. McGILL: Well, Mr. Clement, we look forward, of course - it's sort of "next year" country always, I guess, and I understand that the new management has taken some steps already to eliminate some top management staffing and has cut down the administrative load on the company, which I feel is a move certainly in the right direction. The expansion which took place during your expansionist management term was all done with borrowed money, and I'm wondering where the board of directors were during that time. Surely they would recognize the problems involved in bank financing of takeovers of other companies. It seems to me this is an area in which the board of directors should have offered some steadying advice to a manager who thought that simply by buying out other seed companies it wouldn't matter how much he had

(MR. McGILL cont'd) . . . . . to pay nor what the financing charges would be. It isn't very usual in business to expand without having some equity, some capital available within the business to apply to it. I realize you weren't on the board at that time but I thought you might comment on the responsibility of the board of directors at that stage.

MR. CLEMENT: I think, Mr. McGill, the responsibility of a board of directors is to provide good management, and this board of directors with which I'm associated is very determined to provide good management, and the shareholder fortunately seems to agree completely with this plan. Our only instructions from the shareholder - which is the people of Manitoba as represented by the government - is to operate this business in a businesslike manner, and that involves putting in good management. Now good management can make no mistakes by doing nothing. I don't have to say that. But my conception of good management is management that will take hold of a business and run it, make a few mistakes, but come out right at the right end of the year. I don't want a management that won't do anything; I want a management that goes in there and works to make a successful business of this, and I'll support them on their mistakes as long as they give us the results at the end of the year. That's why I'm saying to you this statement which you have before you shows a trend; it's not the final statement. You can't turn a one season a year business around in one year because the decisions that we made last summer will not be reflected in the operation of the company until one year later and two years later.

MR. McGILL: Mr. Clement, I don't know whether there is a list anywhere in the statement given of the names of the present board of directors. I wonder could you give us that information as to the list.

MR. CLEMENT: I can from memory I think. Mr. Sidney Parsons, Mr. Allan Blicq, Mr. Allan Chisvin - Ian Blicq, I'm sorry, did I say Allan? Ian Blicq. Those are the Winnipeg directors with the exception of the life director, Mrs. Kathleen Roberts. The Brandon directors are myself, Mr. Glen Lawson and Mr. Henry Carroll.

MR. McGILL: Mr. Kelleher is not a member of the board?

MR. CLEMENT: No longer, at his own request.

MR. McGILL: Are there any vacancies on the board at the moment?

MR. CLEMENT: I understand it's a full board but it's one less than last year.

MR. McGILL: Well, Mr. Clement, I've come to the end of most of my questions except that someone sent me these packaged seeds which of course is the basis of your business and I have Steele-Briggs seeds and another Brandon seed firm. The carrots are the same brand, the seed packages look to be about the same to me and Steele-Briggs' price is 39 cents and the competitor's price is 20 cents. Perhaps there's something about these packages that make them different. The kind of seed is the same. (Perhaps you could pass those up.) The radishes are the same difference, roughly double the price from Steele-Briggs, and the beets the same. There's no weight apparently on these seed packages which I believe is a requirement under the law. This sort of concerns me because, as everyone else, I am anxious to see the McKenzie Seed Company prosper. It's a big business and this is your major field. I hope that you'll be competitive in that field and maybe there are some reasons why those prices are at such a variation. Could we have some comment on that?

MR. CLEMENT: Yes, Mr. McGill. You'll see on the back of the Steele-Briggs package of carrots, which I have in my hand, which is packaged by McKenzie, the stamp Canada No. 1 Seed. That's not stamped on Lindenberg's. Therefore one assumes that they are No. 2 Seed. The difference is in the germination quality.

MR. McGILL: I wonder if the average consumer or buyer of seeds for his garden has any knowledge of the variety in quality of seeds. It's something that I hadn't heard of. Of course I'm not a gardener.

MR. CLEMENT: We have consistently over the years had a higher price tag on the McKenzie packet than on the other local producer in Brandon. It's just a matter of choice. A lot of people buy the cheaper seed, but McKenzie's doesn't produce it because our market is a national market and the national market requires a No. 1 Seed marking on all our packets. Eaton's won't handle anything that's cut rate or low priced, the chains won't handle anything of that sort, and . . .

MR. CHAIRMAN: Mr. Evans on a point of order.

MR. LEONARD EVANS: No, it's not a point of order. I'm not sure - further to this question - is not your seed in the life seal package which most other seed packages are not, and would that not account for a difference? One has a guaranteed five-year life cycle I think.

MR. McGILL: Well, Mr. Chairman, the very fact that most of us don't see any real difference here would lead me to believe that in the marketplace the 20-cent package might be more attractive than the 39-cent package.

MR. CLEMENT: It is to some people.

MR. McGILL: This would concern me a little bit. If it didn't have in very large letters Canada No. 1 on the front I might miss it. Those are the questions I had, Mr. Clement. Thank you for your information.

MR. CLEMENT: We have found that there are customers who will buy nothing but Steele-Briggs seeds, other customers will buy nothing but McKenzie seeds and there are other customers who look at the price tag and they buy the Canada Tire seeds for 5 or 7 cents a packet or the lower priced. We haven't got into that market, the cut price market. I think we have a fairly good reputation across Canada for the fact that when our seeds are properly planted they will germinate and give a good result.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, through you to Mr. Clement. On the Annual Report listing under notes, under Note 11 it indicates that Brett-Young purchased in October 31st of 1974 some grass seed, it indicates at the current market price the company could have a potential loss of $126, 000. Now what does that mean to the 1974 operation? I'm not too sure where you show your inventories or whether this would have been included, but does that mean that in addition to the $372, 000 loss that was replenished through your re-evaluation, would that also show as another $126, 000 loss? I'm not too sure with your accounting principles, that was being used, because there's not enough detail here.

MR. CLEMENT: Perhaps I'll just check this with my chartered accountant. I'm advised that none of the $1, 785,860 is in inventory. These are commitments to purchase seed, forward commitments.

MR. MINAKER: The reason I raised the question, Mr. Clement, was I wasn't quite aware of why you draw to our attention you might have a potential loss there and I just wondered whether it was to be included in the Annual Report as an operating loss or why it was included.

MR. CLEMENT: Our accountant thought that it was a liability because they'll have to pay for that seed if the suppliers insist on them buying it. It's like buying forward futures in seed. The grass seed market as you well know was in a real chaos about a year ago. Prices went up, up, up, up, up and people who had to supply customers reluctantly bought and bought and bought as these prices went up to protect their customers, and then whoever was manipulating the market dropped it and then kept selling on the market so that it went away down below what it should have gone and then it started up again. The second time up was successful with the manipulators and it looks as if it was going to stay down for a while.

MR. MINAKER: Mr. Clement, under Note 7 is a detail of Purchase Agreement with Brett-Young Seeds Ltd. Shares and I noticed that the purchase price will be calculated at the greater of 1. 3 million or 75 percent of the cumulative profits for the years 1972 to 1976 and to date the profit or cumulative earnings is about 1. 7 million. That works out to about $580, 000 per year. Has this last year's operation with Brett-Young seemed to be staying at that pace of earning?

MR. CLEMENT: Yes, they don't expect this year to be much different from last year. They had two or three very phenomenal years and they don't think that they can repeat that.

MR. MINAKER: That was my next question, that if you take that average of about $580,000 per year it ends up at about $2. 9 million and if you apply the 75 percent you're looking at over $2 million, $2. 2 million, and I'm wondering is that a fair value for that company?

MR. CLEMENT: Well it was earned by the company so I guess it is.

MR. MINAKER: Well what I'm leading up to . . .

MR. CLEMENT: It's certainly not its physical assets but . . .

MR. MINAKER: I appreciate you weren't involved at the time of purchase but I'm wondering if there would be such a spread of 70 percent in value when one would make the deal that, did the board at that time anticipate that it could be over the $2 million mark?

MR. CLEMENT: We have been negotiating currently with some people who would like to buy this company and the price has been between two and three million dollars.

MR. MINAKER: So it looks like a fair . . .

MR. CLEMENT: This is on its earning basis, not on its assets.

MR. MINAKER: Now the other question was I have to presume that - on another part of

(MR. MINAKER cont'd) . . . . . your page you show Accounts Receivable and you show Less Provisions of Doubtful Accounts of about a quarter of a million dollars. Any earnings that are by Brett-Young that would include those accounts would they be deducted from that agreement?

MR. CLEMENT: Yes.

MR. MINAKER: They would be. After a certain period if the account is written off then it would be deducted from that arrangement?

The other thing I noticed, Mr. Chairman, I was wondering whether you might have any indication for the reasons that - I know Mr. McGill indicated earlier in some of his questions that in your total sales picture for 1973-74 that you seem to be getting 38 percent selling profit in 1973 and now you've dropped to a selling profit of 31 percent in your 1974 sales. That's a fall-off of something like, I think it's 30 percent or more in your selling profit in one year. Can you give reasons for this, Mr. Clement?

MR. CLEMENT: I think it would be largely the grass seed position. We bought grass seed at prices which don't permit us to make any profit at all and we have an inventory of it. I gave you the figures on our packet seed which we separated out from our grass seed. McKenzie's has three different operations in McKenzie's Onions, Grass Seed and Packet. Packet seed is doing well. Last year for seed companies all over North America the grass seed business was a disaster, except one company I know of didn't buy any grass seed until it went away down in price and was being sold at bargain prices.

MR. MINAKER: Was that person manipulating the market?

MR. CLEMENT: They did very well on it. But they didn't have an obligation to their customers to supply them. These companies had customers that for years had been supplied with good quality Grade No. 1 Grass Seed and our buyers just reached for it and that's why the profitability on that has gone down in that year.

MR. MINAKER: I'm sorry if you mentioned it earlier, I was busy analyzing the report, but did you indicate what percentage of your total sales are in grass seed sales?

MR. CLEMENT: No I didn't and I don't know that I can. We are in the process of changing our accounting and bookkeeping system from a hand-written book - well maybe I should tell you this. When we bought Steele-Briggs Company their accounts were kept on the Maple Leaf Mills computer and we couldn't take part of the computer out of the business, so we had to set up a new set of books for Steele-Briggs and at the same time operate the McKenzie system and then consolidate the two. Having consolidated the two we're now putting them gradually on the computer. Our first thing on the computer is our accounts receivable and we are now billing every customer regularly with an accurate statement of account and charging them interest if they don't pay on time. So that is under control.

The other items of information we are selecting by the normal hand worked methods because we don't want to put the rest of it on the computer until we're sure the computer does what we want.

MR. MINAKER: Mr. Chairman, through you to Mr. Clement.

MR. CLEMENT: I can't answer that question because it's not available to me.

MR. MINAKER: So if I understand you correctly, you haven't got the sales separated last year for your Grass Seed Division and your Packet Division and . . .

MR. CLEMENT: In some ways it wouldn't be too meaningful and this is the reason for it:

McKenzie's sell No. 1 grass seeds in one-pound packages to people who sow small lawns. Brett-Young, our subsidiary, sells a carload of grass seed to a broker down in Chicago by telephone and maybe make $50, 000 on it and the next week will lose $32, 000. They're in the brokering business as well. So that you'd be comparing Brett-Young's figures with carload lots to McKenzie's figures with package lots, and that's why we have a little different accounting system. I think Mr. McGill's first question was that: Why did we change McKenzie's system? It was because our system of grass seed wasn't applicable to McKenzie's, it was to Brett-Young, and Brett-Young are still staying with their system.

MR. MINAKER: I just did a quick calculation. Then are you suggesting that last year you lost about $2. 3 million in grass seed sales? I think if you apply 38 percent selling profit on your cost of sales you should have got about $17. 5 million in sales. So you're talking about $1. 8 million to $2 million difference. Would that loss have been that high in the grass seed sales? --(Interjection)-- No I was just curious whether there was other reasons besides, whether it was competition or possibly inefficiencies in the factory or in the packaging end or something to that effect. But you indicated that it was primarily the grass seed sales so that . . .

MR. CLEMENT: That was the number one item. Another item was that in planning for the future we decided we had to make a price change on our packets. Making a price change on our packets means that we have to rip the packets that we have in stock and the ones that come back, pour the seed out, regrade it, and have the printer print new packets with the higher price on them and then repack them. And that is an expensive operation because we did it on quite a number of seeds, so that in the one year we had a fairly high cost factor for repackaging. And in this year's statement we have reaped some of the benefit of that repackaging at higher prices, but the following year we should reap more benefit because we don't incur all the costs of it and we can store our seeds under optimum conditions so that they will still stay No. 1.

MR. MINAKER: Are you suggesting, Mr. Clement, that you don't follow the principle of the Liquor Commission and Safeway Stores that once a price is on the package you don't change it?

MR. CLEMENT: It's been experimented with - over-sticking prices by putting another sticker on, and our retailers all say just don't do it because our customers will always pull off the sticker and see the price underneath, and we get into . . .

MR. ENNS: You just have to talk to the Autopac officials. They have stickers that don't come off.

MR. CLEMENT: Anyway this is why we don't do it. We don't think it's fair to put out a seed packet with two prices on it.

MR. MINAKER: So long as you repackage it . . . That's all I have, Mr. Chairman. Thanks.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Clement, I don't know whether you are one who ventures - I gather not - but anyway I'm going to see whether you care to venture anywhere. You show the 1974 statement with a net loss on the operations of $438, 000, and you indicate that you have made what you feel are some adjustments. Do you expect any turnabout in that figure for the 1975 statement?

MR. CLEMENT: Yes, at a minimum we expect to break even - on McKenzie's operation only; I'm speaking of McKenzie-Steele-Briggs. We expect to break even to a slight profit. We expect a profit of somewhere between zero and $400, 000 from Brett-Young. We expect sort of a nice little profit.

MR. GREEN: But on the composite statement, you know - and I'm not going to hold you to this but I'm leading into something else - on the composite statement, on the comparable statement next year, you're hoping, and I guess we're all hoping, that you'll show a million dollar turnaround. That means $500, 000 profit.

MR. CLEMENT: This is what all our people say.

MR. GREEN: With the same capital structure as you've got now?

MR. CLEMENT: We can pay a million dollars interest and still make $400, 000.

MR. GREEN: That's what I was coming to, Mr. Clement, because there are some people who have taught me to make money in a way that I find inconceivable but they believe that it's making money. You have a capital position of share capital in this corporation of roughly $100, 000, $120, 000, out of capital needs of about $10 million. So you show about a one percent investment of capital in this organization. Now if some magician came along and said, "Well, we're going to translate that $10 million in loan into $10 million in shares," you would save by that simple bookkeeping system, which I don't agree with and I'm sure that you won't agree with, you would show a profit on last year's statement of about a half a million dollars, and I don't suppose that you would come to this Committee saying that you're showing a profit.

MR. CLEMENT: No.

MR. GREEN: You're not the kind who would say that.

MR. CLEMENT: No.

MR. GREEN: I didn't think that you were. So that you would not say, by the simple expedient of translating this debt into capital, that you have turned around that company.

MR. CLEMENT: No.

MR. GREEN: If you had not $100, 000, but let's say $5 million, which is 50 percent of your capital, in shares rather than in loans, this company would have had a break-even last year, would show a slight profit last year.

MR. CLEMENT: Yes.

MR. GREEN: But you wouldn't come to this committee and say, "Look how wonderful we have done. We have translated our debt into capital and we've made money." Because you wouldn't have done anything differently, would you?

MR. CLEMENT: Well everybody likes to produce a more impressive . . .

MR. GREEN: I have never been interested in it, Mr. Clement, but there are some people here who think that that is the way - that that is the way.

MR. CLEMENT: What I've been saying is what we have tried to do in a practical way to produce seeds efficiently and distribute them efficiently.

MR. GREEN: But on $10 million invested - forget now who is making the investment, whether it is the bank or the Government of Manitoba or private people - this corporation, even in what you consider to be quite a bad year, has produced - well, it's been able to pay $1,100,000 in interest, and therefore has shown that if it were capitalized at 50 percent it would be what some people call a viable industry.

MR. CLEMENT: Yes, I think it would be.

MR. GREEN: Now you haven't really been pursuing that position and, you know, I'm rather happy that you are not. But some people think that that position should be pursued, and if it were pursued with half this borrowed capital in equity you would be in a slight profit position.

MR. CLEMENT: Yes.

MR. GREEN: With all of it in equity, you would have shown a $500,000 profit for your shareholder. And next year you are thinking, even with all the borrowed capital - and, you know, I'm not going to hold you to it because I've seen projections and I've seen what happens to them - but next year with all the borrowed capital, which is a very heavy load to bear, you may show in this operation a half a million dollar profit.

MR. CLEMENT: Mr. Green, our manager is very anxious to do this.

MR. GREEN: He wants to capitalize the debt.

MR. CLEMENT: No, he . . . No, I wouldn't put that in. He is very anxious to show that this company is a viable company.

MR. GREEN: He wants to make money without capitalizing the debt.

MR. CLEMENT: Well this is not our decision. All we have to . . .

MR. GREEN: But you say your manager would like to show a profit without recapitalizing that debt.

MR. CLEMENT: Mr. Green, he has asked his salesmen to stay in hotels costing no more than $14.00 a night so that they can show a . . .

MR. GREEN: Mr. Clement - I want to say, Mr. Clement, that I want to congratulate your manager for wanting to turn this statement around without recapitalizing his debts, because I think that if he does that, that everybody here is going to be happy and that we won't have one group saying, well, he made money because he capitalized the debt, and the other group saying that he didn't make money.

MR. CHAIRMAN: Mr. Osland. Order please. Mr. Osland.

MR. OSLAND: Mr. Chairman, through you to Mr. Clement.

MR. CHAIRMAN: Order please.

MR. OSLAND: I like the philosophy that you've kind of handed us that you're going to - you know, your objectives for the next year and where you're going. I have no trouble understanding that the statement shows a loss. I'd like to ask a few questions of what the social good has really been. How many staff would you be employing through your operation?

MR. CLEMENT: Being a seasonal business, in Brandon we employ from 200 to 54 people. Most of the year we employ close to 200 people. In the Brett-Young operation - this is the McKenzie; Brett-Young is located largely in Winnipeg - I've got a dollar total as well as an employee total. Their employees average throughout the year 40 in Brett-Young. They have a total payroll of $376,619 for the year. There is some casual labour in that. The McKenzie operation is moving a number of employees from Toronto to Brandon. Most companies, I think, would feel Toronto was the more desirable place to carry on a business of a national scale; we're attempting to operate it out of Brandon, Manitoba, of all places, and I think we're making a pretty good fist of it when we can pay over a million dollars in interest on borrowed capital, but you may not think so. Anyway, we are providing a payroll of $874.138.79 in Brandon. That was in the period under review. The employees range from 65 to 210 depending on the season. That's in Brandon. In Manitoba, outside of Brandon, there is an additional

(MR. CLEMENT cont'd) . . . . . average employees of 15, payroll of $170, 566.24; outside of Manitoba, an average of about 120 employees, and we are in process of moving some of them to Brandon. Their payroll is $816, 949.12. That's outside of Manitoba. So in all of Canada we have 260 employees, a payroll of $1, 861, 654.15.

MR. OSLAND: You're closing down the Toronto office . . .

MR. CLEMENT: No, just certain functions there. We are closing down the packaging function but we have to maintain a first-rate sales force there because it's our biggest market. The people in Toronto buy packet seeds like crazy. Our biggest sales is in the City of Toronto and in the garden areas around the city.

MR. OSLAND: So you're closing down the packaging and it's going . . .

MR. CLEMENT: It's all packaged in Brandon and we will ship it to Toronto for distribution out of our warehouse in Toronto.

MR. OSLAND: Well, how many jobs would that transfer from the Toronto operation then into Brandon?

MR. CLEMENT: Oh we brought, what? About 20 people in from Toronto? About 20 people we actually moved. Some wouldn't move because they had their homes in Toronto. They obtained other jobs. So we created new jobs in Brandon to do the work that we were packaging and sending to Toronto. So from, say, 150 employees in Brandon, we are now running 230 employees by creating new jobs and moving some people from Toronto to Brandon. That's in this year.

MR. OSLAND: What would be a total to the Brandon community as a . . . ?

MR. CLEMENT: Say there is an average of - it averaged out about 140 over the year, the year ago in Brandon, and now it's averaging out about 230, an increase of about 80 employees in Brandon, 20 of whom we moved and 60 new jobs created.

MR. OSLAND: Have you any figures of what that would mean in dollars to the economy? If you haven't got it broken down, it isn't . . .

MR. CLEMENT: No I haven't, but it would run it up over a million dollars now. It would be over a million dollar payroll in Brandon.

MR. OSLAND: I've got most of my questions here. How do you feel about the future?

MR. CLEMENT: Gosh, if we can't make this a good business! People are just dying to go back to gardening. They don't want convenience products. They don't want it packaged up neatly. They want to go out and muck in the dirt and make little garden plots for themselves and grow flowers and vegetables. I think it's a whole change of way of life. You see on that statement there, there isn't anything for advertising of any significance, and that was brought out in some of the questions here. People don't know how good McKenzie seeds are or they'd buy a lot more of them.

MR. OSLAND: Are you going to do anything about - like what Mr. McGill brought up - the point of whether, you know . . .

MR. CLEMENT: I hope so. I think Ed McGill and I will go out on a tour across Canada.

MR. OSLAND: A sales program.

MR. CLEMENT: At our own expense? No I think this is a problem. We have to do some advertising, but it's so fantastically expensive that I don't . . . I think this is a problem we have to deal with.

MR. OSLAND: In other words, the future is viable even if we don't change the financial setup as far as capitalizing.

MR. CLEMENT: Yes, I'm not afraid of it except if the interest rates go crazy again and go up to 14 or 15 percent. We might not be able to pay it.

MR. EVANS: Mr. McGill told us all about it last week, how to make money.

MR. CHAIRMAN: Order please.

MR. OSLAND: Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Adam.

MR. ADAM: Thank you, Mr. Chairman. Most of the questions I wanted to ask of Mr. Clement have been asked by Mr. Osland. I still have a couple, though, that I would like to pursue. You have only projected for the one year - you haven't gone beyond that?

MR. CLEMENT: No. We're having a directors' meeting on Wednesday, sort of a two-day seminar with our sales force, and they will tell us what they think they can do next year and in 1976 and 1977 and then we will try and work out our rationale of production, our printing costs and I hope some advertising, and I am looking very strongly towards our catalogue work because we can distribute seeds much more economically by catalogue than we can by salesmen.

MR. ADAM: So that information will not be available until at the next report, I suppose.

MR. CLEMENT: No. One of the trying things about this business, it only changes once a year.

MR. ADAM: I wanted to ask you about the . . . My wife is a gardener and I'm kind of an enthusiast as well, and she tells me she had a lot of difficulty obtaining seeds this year, even in Dauphin where she does quite a bit of her shopping, that there was difficulty in obtaining seeds and they had to buy their seeds back in February or March, practically the week that they were out, otherwise they ran out of seeds. Is there a shortage of seeds or what?

MR. CLEMENT: There isn't really a shortage of seeds. There is a shortage of a few special brands or varieties of seeds, and there is a difficulty in distribution because most national companies make a standard packet and certain parts of Canada don't grow turnips - nobody would be found dead eating a turnip in certain parts of Canada. Other parts of Canada love turnips. But we are not yet sophisticated enough just to send turnip seed to the part of Canada that grows turnip. We send the packets everywhere. So this is another problem we have to do, when we get a feedback of information from our computer services and our salesmen we will have to package our distribution so that people that like sauerkraut and cabbage will get the cabbage seed in abundance and that people who like flowers or special long, delicate carrots to cut up into dainties will have them in abundance. This is really the problem, it's a distribution problem. We thought it would be this year because we thought we would have to be rationing seeds.

MR. ADAM: Is that right?

MR. CLEMENT: Our first indication was that we would have to ration seeds to the distributors.

MR. ADAM: That's quite interesting. Some cities are now developing garden plots, I know that Ottawa has. I have a daughter living there and she now is buying seeds and planting somewhere in the city. I believe Winnipeg has done that as well. Are you working in any way with the city government to promote this and in turn promoting the sale of seeds or the use of seeds by many many people - more than half the population of Manitoba is now living in Winnipeg and they have no - I imagine not too much space to develop some.

MR. CLEMENT: Winnipeg is promoting this. There is some private operators offering garden plots to the public and McKenzie's have offered a prize to encourage it and our sales people are working with the operators. This is the case in Toronto and in the larger centres. In the smaller areas, Brandon, people look after it themselves. But in the larger centres you have to have somebody to make small plots available and a parking lot so people can go out and work. It's a good back to nature trend and people are going to get used to growing fresh vegetables again and they won't buy tinned vegetables when they can get the fresh. And McKenzie's will go into the greenhouse business.

MR. ADAM: I just had one more question, a last question, Mr. Clement, and that is relating to the seeds that the Chairman is now perusing. Is there some regulation governing the sale of registered seeds such as first generation, second generation, Canada No. 1, or commercial. Is there any regulations at all governing this type of seed? I know there is in regards to cereal grains and so on.

MR. CLEMENT: Yes, there is in cereal grains and forage crops but on the packet seeds this is the regulation: If you mark it Canada No. 1 it has to have government approved germination standards. And they really inspect them. They have inspectors all across Canada who will pull a handful of seeds out of every packet and germinate them and if those germination tests don't stand up they'll pull the whole sales display off the counter. It's rigidly policed. McKenzie has an excellent record of standing up to these inspections.

MR. ADAM: You indicated that one of the packages had no indication of what was in the package and I'm not sure which one it was. Did you say that they were both Canada No. 1 or one didn't . . .

MR. CLEMENT: I assume the other is Canada No. 2. This one doesn't indicate that . . .

MR. ADAM: Does it indicate that it's No. 2 or . . . ?

MR. CLEMENT: Steele-Briggs does.

MR. ADAM: Is there any regulation . . . ?

MR. CLEMENT: Steele Briggs Canada No. 1 seed.

MR. ADAM: Yes.

MR. CLEMENT: This is the competitor, there's no statement of grading on it at all.

MR. ADAM: I see. Well what I'm getting at, is it legal to sell this package of seeds without indicating what grade it is?

MR. CLEMENT: As long as you don't say it's Canada No. 1 seed it's legal to sell it. Canada Tire sells seeds for 5 cents a packet.

MR. ADAM: So there's no protection for the consumer?

MR. CLEMENT: Well, yes. If the consumer requires Canada No. 1 seed he'll get the best germinating seed there is, but if he buys for price why he takes his chance.

MR. ADAM: Okay. Thank you very much, Mr. Chairman.

MR. CHAIRMAN: I was just going to ask one question. I notice one package is made in the U.S. Where are the packages manufactured?

MR. CLEMENT: The printing?

MR. CHAIRMAN: Printing yes.

MR. CLEMENT: The printing on one is in the U.S.A., ours are printed in Canada.

MR. CHAIRMAN: Mr. Einarson.

MR. EINARSON: Mr. Chairman, through you to Mr. Clement. My first question I would like to ask: You say that one package of McKenzie's is No. 1 seed. What is the germination requirement in order to stamp it No. 1 seed?

MR. CLEMENT: I'm afraid that's not part of my training and I believe it varies with the variety and the size. You know those little petunia seeds they're just like dust. I really don't know.

MR. EINARSON: There's no one in your staff that could give you that information? Because, Mr. Chairman, I want to point out to Mr. Clement that whether it's a cereal seed or whether it's a garden seed the law requires that you know in order to put a No. 1 stamp on that package a certain germination percentage must be attainable in order for the company to put on that No. 1 stamp. I merely throw that out to you.

MR. CLEMENT: I agree. I think it's the Ottawa Department of Agriculture sets a standard for each variety and the percentage of germination for carrot seed may be different than the germination for cabbage seeds because some lose their germination quality much quicker than others do. These regulations are established by the Department of Agriculture at Ottawa and their inspectors inspect these packets. Our instructions are that our seed must be better than Canada No. 1 when it leaves the plant and it must be so packaged that it keeps that germination factor for at least three years.

MR. EINARSON: There's another area, Mr. Chairman, that I'd like to pursue with Mr. Clement. And that is, you talked about the various aspects of the whole operation of McKenzie Seed and I want to dwell just briefly on the forage seed aspect. You're probably aware the Minister of Agriculture made an announcement last year about the policy that he had brought about whereby farmers could make application through the various agricultural representatives to purchase forage seeds, and I think this was mainly alfalfa and brome grass, and he indicated that this seed would be coming from McKenzie Seed Company.

MR. CLEMENT: Yes.

MR. EINARSON: Could you indicate what volume of business that was in last year's business there - how many pounds of alfalfa and how many pounds of brome grass was in this particular deal for farmers?

MR. CLEMENT: I haven't it broken into the two varieties but the total orders in the forage seed program for this year, 1975, were 302 orders. The sales amounted to $63,240.80 to the farmer. The cost to McKenzie's of making these sales was $58,181.54. McKenzie's profit on a sale of $63,000 was $5,059.26.

MR. EINARSON: On the total transaction then?

MR. CLEMENT: On the total transaction.

MR. EINARSON: I see. How did you compare in your prices then competitively with other companies?

MR. CLEMENT: The farmer was instructed that McKenzie's would do this as a service at a price as good or better than the competitive price and it was - I am told that each order was priced competitively depending on the standard and the quality of the order.

MR. EINARSON: Did McKenzie's purchase say alfalfa from the farmer directly?

MR. CLEMENT: I don't know where we bought it. We have some stocks of it, we bought it on the market and resold it as the orders came in.

MR. EINARSON: Yes, but some were saying that you were buying and you were selling for less money than your competitors were able to purchase. So that's why I'm asking you were you able to find a quantity of say alfalfa seed for considerably less than anyone else was able to buy it for? I don't know whether you're able to divulge that or not.

MR. CLEMENT: I don't think I could answer that because I don't know. I heard about this program so I wondered how it worked and I'm telling you what the staff told me and they said they were able to do it quite reasonably and economically because they got the orders in first before they had to buy the product. Ordinarily we have to buy the product a year or so before we sell it and carry it in stock. So we could do this at a profit of $5,000 without pricing it inordinately. I don't know whether that answers your question or not.

MR. EINARSON: That will have to suffice, Mr. Clement.

MR. CLEMENT: If you'd like to go into it further, it's something I'm interested in doing well because it could be a really good service to the farmers if we do it efficiently.

MR. EINARSON: That's quite true and this is the point I was getting at, I mean I have no objections there. It's a matter of competitiveness and so on. If you are able to do that and still make a profit I think it's an important thing to indicate.

MR. CLEMENT: We have some very good buyers but gosh they buy all over the place and I just don't know where this particular seed was bought.

MR. EINARSON: One other area I wanted to question you on, and it's merely for the purpose of confirming whether or not it is correct or otherwise. You mentioned in your early introduction of your remarks that McKenzie Seed had a fire in the business, and I'm aware of the most difficult situation that it can cause your business and any other business in which others have had that same experience. I am given to understand - and you could correct me if I'm wrong, Mr. Clement, in this - that some of the garden seeds you were able to salvage you were able to package, or maybe some repackage, you shipped those out only to find that the seed was of no value and you had to take it back. Could you elaborate on that and what the costs were to the taxpayers of this province?

MR. CLEMENT: Well as you can understand, this occurred just at the shipping season when our warehouses were bulging and when we were just getting ready to ship out, and as soon as the customers heard of the fire the long distance phones were ringing constantly saying, are you able to supply us or will we go elsewhere for our requirements? So where we had longstanding accounts we supplied even if we had to buy from other people, and we had seed in other warehouses that wasn't burned; we had some seed that was packed so tightly in containers that we took it out and it seemed to be all right so we shipped it and we told them that we wanted them to test it. If it didn't germinate out we would make an immediate refund of what they paid plus the shipping cost. So that we did. But it was far better businesswise to retain the connection with the customer rather than to send them to another seed house for a year and perhaps lose them forever. At least we thought so.

We had insurance. It wasn't the taxpayer that paid. It was the insurance company. Some of our rather slow moving stock was burned up too and we got paid cash for it. So we were pleased about that part of it. That's all I should say about that. The taxpayer got a break on this fire because the insurance was adequate.

MR. EINARSON: Well, Mr. Chairman, I have had experience in fires myself and one never does gain, it's always a certain loss regardless. You recover a certain amount but you certainly don't recover all, and I don't want to make an issue that way. I mean, that's not my point.

MR. CLEMENT: Well we did have business loss insurance too which picked up some of the slack and it helped.

MR. EINARSON: Oh I see. There's just one other thing that interests me, Mr. Clement, and that is in the questioning of some of the - you say that you've closed up your packaging operations in Toronto. Where do you purchase most of your garden seeds for packaging? Where do they come from, where are they grown?

MR. CLEMENT: Mostly in the United States. Some in California but some in the central states. There are areas, some of them only a few miles square in size where they can apparently grow and harvest successfully an excellent variety of seed and our buyers know where these are and they deal with them every year. Some of them are in California; some of them are in the central states.

MR. EINARSON: The reason I asked it is I just wondered if you found it more economical to close your place in Toronto and package in Winnipeg. That's why I asked that question.

MR. CLEMENT: Yes. We didn't do it for purposes of economics. If we were doing it for purposes of economics we might still be packaging in Toronto. We did it because it's a Manitoba-owned company and we thought we could do it profitably in Manitoba. Maybe we wouldn't make as much money as if we did it in Ontario but the money we made will provide jobs here.

MR. EINARSON: I see. Thank you.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Thank you. Mr. Chairman, I have several questions and the first one arises from Note No. 4 in the statement and I just want to get something clear in my mind with regard to the "net realizable value in order to more accurately reflect the results of the operations." Are you saying when you say that that you've assessed your stock, your packaged stock, at your cost price?

MR. CLEMENT: Well in any inventory taking you have to have some method of costing and in the seed business Brett-Young and McKenzie's both value their stock on the basis of whichever is the lowest of what it cost us to buy it or what it would cost us to replace it. Well we found in McKenzie's that we really weren't showing what those inventories were worth in some seeds because we bought the seed and then we packaged it; we improved it, we spent money on it and we kept that in inventory. So we thought that instead of showing what we paid for the raw seed we should show what we could sell it for.

MR. MINAKER: Use it for your selling price?

MR. CLEMENT: Or cost, whichever is the lower.

MR. BANMAN: Well, as you mentioned, next year if you follow the same accounting procedure of course you pick up the slack again and it's a matter of juggling - yes.

MR. CLEMENT: It's not really juggling, it's searching for something that gives a more accurate picture of an operation.

MR. BANMAN: Right. But it's a changeover; it's a different policy; and I can relate it to my own business. I have a certain format and if I change that . . .

MR. CLEMENT: Then you have to make a note of it and be conscious that you have changed it, because comparisons are not accurate.

MR. BANMAN: Right. That's right. Apples with apples. We've been talking about seeds here most of the evening, and I was wondering, I would just like to ask several questions with regard to your hatchery. Which company runs your hatchery?

MR. CLEMENT: Brett-Young.

MR. BANMAN: Brett-Young Seeds.

MR. CLEMENT: Through a subsidiary.

MR. BANMAN: Would you be able to tell us how many chicks they hatched last year? You don't know . . . Are there any expansion plans for the future with regard to the hatchery?

MR. CLEMENT: No, I don't think so. I don't think the Brett-Young management consider it something that they want to continue with. In fact, I think they're thinking of contracting it rather than expanding it.

MR. BANMAN: They are selling to the public at large now, to the different farmers - what? On a contract basis or . . . ?

MR. CLEMENT: Well, you know, I live in Brandon and I'm in and out of McKenzie's. I pick up a little bit of information about the package seed business but I don't know anything about the Brett-Young business except what I pick up from their statement and going to an occasional directors' meeting, so I really don't know the operating part of it except that I think they are very efficient people, and if there's money to be made out of hatcheries they'll make it; if there isn't, they'll be out of it like a shot. I have a great respect for their management ability.

MR. BANMAN: There isn't any breakdown that you could provide us what the hatchery has done compared to the rest of the business?

MR. CLEMENT: Not in any information I have. I'm sure the management have that at their fingertips, but I haven't.

MR. BANMAN: Do you think you'd be able to provide that for the committee?

MR. CLEMENT: I could. I don't know whether I would, because it might be information that would be valuable to competitors and I would want to clear that with Brett-Young management.

MR. BANMAN: The only thing I'd be after, Mr. Chairman, is to see what that particular

(MR. BANMAN cont'd) . . . . . branch of that business did: did they make some money or did they lose some money? That's the only information that I want. I wouldn't want any technical information. That's the information that I would like.

MR. CLEMENT: I'm sure that that wouldn't help a competitor very much.

MR. BANMAN: No. But I've had several questions asked of me with regard to that particular division of that company and I would be interested . . .

MR. CLEMENT: Perhaps I might see you afterwards. I could have your card or something and I'd drop you a line on it.

MR. CHAIRMAN: Well I believe that that information can be conveyed to me and I'd distribute it to the members of the committee. Mr. Banman, are you finished with your questions?

MR. BANMAN: No. Mr. Chairman, there are several more here. Do you deal quite heavily in futures?

MR. CLEMENT: No. McKenzie's doesn't; Brett-Young does to some extent.

MR. BANMAN: Note 11 over here, the loss - the potential loss, and of course we know that the market can fluctuate and tomorrow you could possibly show a profit on it, and I guess this is the same thing that's happened to a lot of people that have been trying to hoard anti-freeze or buying sugar on the way up. It looks like somebody is making a real killing, and somebody does, till somebody in the end gets caught with the thing. A purchase like that, would that be a direct purchase, a solid purchase, or would that be a futures?

MR. CLEMENT: It's a commitment. They're not trading on the futures market, no. They're making commitments for forward orders.

MR. BANMAN: I appreciate that, but they make a firm order with somebody for X number of dollars, and if the market fluctuates they're locked into that certain price, eh?

MR. CLEMENT: They have to buy that as long as the person delivers.

MR. BANMAN: And in that respect it's - I can't call it a futures as purchasing on the market but it's a . . .

MR. CLEMENT: It's close to that arrangement but it's a firm commitment.

MR. BANMAN: Yes. So that, in the main, they do not deal that heavily in . . .

MR. CLEMENT: No, they're actually brokers. If they buy something, they try and sell it the same day in another market and make their money on it. They don't warehouse a great deal of it.

MR. BANMAN: Yes. So, very often they just, from the primary producer where they buy it or wherever they buy it from, they ship it right out so that they never see it and they just see the paper work.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: Mr. Clement, I missed part of the presentation, but the information I would like deals really with Brett-Young, and I don't think that this has been covered before based on what the members of my caucus have told me. First, I want to understand the nature of the agreement that was made and the provisions that were made for the increased valuation on the price of the shares. I think it's pretty self-explanatory in the notes, but I want to understand it so that we have it as a matter of record. Purchase price of the shares was $1, 300, 000. Is that correct?

MR. CLEMENT: $1, 300, 000, yes.

MR. SPIVAK: Can you tell me, at the time - if I'm correct, there were three main shareholders. They may have either had all the shares or major control of the shares. Is that right?

MR. CLEMENT: Three major shareholders, yes.

MR. SPIVAK: Percentagewise what would they have had as control? 100 percent?

MR. CLEMENT: Yes. Yes, it was a 100 percent sale. I think one or two had a few shares in their wives' names but they acquired those.

MR. SPIVAK: That's fine. My understanding then is that you had this provision for an increased evaluation to occur with respect to the accumulated profit for the years 1972 to 1976 and there has been an escalation which is reflected here. Can you tell me the annual payments that were to be made under the agreement, that is the annual payments to be made to them independent of the question of value, the final value, whether they received $300, 000 over a year, $400, 000?

MR. CLEMENT: It's a complicated formula . . .

MR. SPIVAK: You know I can, through a deduction, have some idea that we're talking about probably a $400, 000 payment annually to them on the purchase of the shares even though the reduction . . .

MR. CLEMENT: Each of the first three years, the profitability indicated a higher payment than the minimum payment, so that those years we went on statements that they produced, and paid them according to their 75 percent ratio. It will be this year, I think, that we have to go on the minimum because they haven't achieved the profitability that they did the first years.

MR. SPIVAK: Yet taking into consideration, if you look at the 1974 statement, the purchase agreement showed payment 1973 of $795, 000 still owing with $708, 000 owing in 1974, and there has been approximately $400, 000 paid out in that year to them.

MR. CLEMENT: Yes.

MR. SPIVAK: So that under normal consideration had this formula not worked out, you would have only owed $300, 000 at this point.

MR. CLEMENT: Yes, that's right.

MR. SPIVAK: Can I ask: Did the terms of the agreement provide that the shareholders would have a management contract as well? Was that part of the terms of the agreement?

MR. CLEMENT: Yes.

MR. SPIVAK: How long was that management contract to last?

MR. CLEMENT: For the same period, a five-year period.

MR. SPIVAK: Are the three shareholders still involved in the management of the company?

MR. CLEMENT: Yes.

MR. SPIVAK: They are still managing the company. Full time?

MR. CLEMENT: I understand Alan Johnston has had some health problems but, aside from health problems, all three of them are spending their full time there.

MR. SPIVAK: Were they to give full-time management to the company or were they entitled to deal in their own businesses as well?

MR. CLEMENT: They were not to compete with any of the businesses that Brett-Young was in, but they could operate in the sense that they could make investments. The agreement provided that they would spend their full time on the Brett-Young work.

MR. SPIVAK: This agreement is in force as far as not competing with the company during the time that they were employed in management, or . . . not longer than. Is one of the shareholders in competition in the chick end of the business that you're aware of?

MR. CLEMENT: Not that I'm aware of.

MR. SPIVAK: You have before us the consolidated statement of McKenzie, Brett-Young and Steele-Briggs. Do you have the individual statement of each company?

MR. CLEMENT: Yes.

MR. SPIVAK: Is that going to be made available to us?

MR. CLEMENT: No.

MR. SPIVAK: May I ask why?

MR. CLEMENT: Well I think that it would be information that would be quite valuable to competitors. It is one operation and it's operated as such.

MR. SPIVAK: Well, I guess the difficulty that I would have would be, without knowing the financial position of one company, which was purchased by McKenzie, it's very difficult to be able to determine or to be able to make some judgments based on experience as to whether the purchase was a wise purchase, a correct purchase, or not. The formula is an unusual formula to begin with.

MR. CLEMENT: Yes it is.

MR. SPIVAK: We accept that, and I'm not suggesting it's not a formula that has not been undertaken by other businesses, but it's an unusual formula, and without having the financial position it's pretty hard to make a judgment. As an example, one would want to know profit margin, one would want to know business portion, the sales portion. One would want to know, with respect to the total consolidated position, the actual breakdown of sales of each company and be able to, you know, have some judgment as to what really is happening with respect to the company. It's very difficult for us to be able to know. There's public money put in as an investment in a transaction which we acknowledge has some features to it that are unusual. Nothing wrong, but unusual in the normal . . .

MR. CLEMENT: Yes, this . . .

MR. SPIVAK: Well it's very difficult to make evaluations. Let me put another question to you. Has it been brought to your attention that there was some difficulty with respect to Brett-Young with respect to the management of the company, with respect to the accounts of the company?

MR. CLEMENT: No. No it hasn't, Mr. Spivak. I am sort of fascinated by the fact that the company has in three years earned more than the purchase price. In other words, the agreement was to pay at least $1, 300, 000 for the company and they have in three years earned $1, 740, 389, so the company has paid for itself in three years unless it loses heavily in the last two years, which is quite possible.

MR. SPIVAK: But you'll acknowledge that all we have is that one figure. We don't have a breakdown.

MR. CLEMENT: No, that's it.

MR. SPIVAK: So it makes it very difficult. We have to accept that figure as being the figure, and I'm not quarreling with it but we don't know how that was made up.

MR. CLEMENT: No.

MR. SPIVAK: We don't know what the sales were, we don't know what the expenses were. But again I put it to you: Have matters been brought to the attention of the management of McKenzie or of yourself as Chairman or to the officials who were before you, of any difficulties with respect to the accounts of Brett-Young? Did the accountant bring any matters to you at all?

MR. CLEMENT: None other than appear in these notes.

MR. SPIVAK: Have matters been brought of any kind of conflict of interest with respect to the directors as to the people involved in management of the company?

MR. CLEMENT: The only problem is to provide for a continuity of that management after their management contract is up, because I have been very impressed with what they've been able to do with that company in the way of earnings. That, in a way, is a problem but it's a nice problem to have - that is, to have such a good management that you wonder how you can persuade them to stay on after they want to retire. I really don't know of any difficulties. If there are any, they've handled them within their company without coming to McKenzie's for any help.

MR. SPIVAK: Can you tell me what then the salary range of the principals are with respect to their management? I think this is a bit unusual but, on the other hand, they were the shareholders of the company who have participated in this sale whose value has increased in the last few years by some $450, 000. I wonder if you can indicate what the aggregate salary range of the main shareholders would be.

MR. CLEMENT: I'm afraid I don't know. My recollection was that they would stay at the same salary they had been earning when they'd been paying themselves before McKenzie's bought them, but I don't recall the figures.

MR. SPIVAK: Do you know what expense accounts they were allowed as well? Or charges they were allowed to the Company itself?

MR. CLEMENT: I'm afraid I don't, Mr. Spivak.

MR. SPIVAK: Who would they answer to for the charges and expenses? To the board or to themselves?

MR. CLEMENT: They have their own board of directors on which McKenzie have representation. This is part of the agreement.

MR. SPIVAK: All right. So the board of directors consists really of the same shareholders who were board of directors' members before. Is that correct?

MR. CLEMENT: They have, I think, those three shareholders plus two members from McKenzie's. In other words, they were to have control of the management during the five-year period.

MR. SPIVAK: So effectively they have control of their own company.

MR. CLEMENT: Yes.

MR. SPIVAK: Provided there's a profit picture, I guess McKenzie would not be too concerned.

MR. CLEMENT: No.

MR. SPIVAK: So the internal operations of the company really are their own responsibility, and so long as a profit was generated they would . . .

MR. CLEMENT: They don't have overlapping expertise. They have what we regard

(MR. CLEMENT cont'd) . . . . . anyway as expertise in the forage seed field, and we don't have that in our company. We're in the packet seeds, and they're related, but they seem to do a very good job, judging by the results that they give to us. So we follow the principle of if you're winning you leave it alone.

MR. SPIVAK: You know of no charges that have been made to the company that were not justified, then.

MR. CLEMENT: I don't know of any, no. If you know of any I'd be very glad to hear them.

MR. SPIVAK: No. This is an unusual situation and I put it to you again. We have a situation in which we do not have their balance sheet in front of us, in which the effective management is in the hands of the principals whose interest has been purchased and who, as I understand it, will be entitled to go into competition at the end of the term of the five-year period. I wonder if you could indicate the aggregate salary - and I realize you don't have that information now, but I think it would be a matter of interest - the aggregate salary that is being charged by the principals, and I wonder if you can be in a position to assure the committee that they are in fact devoting their full time and energy to the company. I'm assuming that that will be made available to us. I don't expect Mr. Clement to be in a position to answer that immediately but I wonder . . .

MR. CLEMENT: I really can't see any objection to my doing that, Mr. Spivak. If I find a real objection I'll communicate it to the Chairman. Otherwise I'll give him the information.

MR. SPIVAK: I wonder then if I can move on to another point, Mr. Clement. Of the total seed business in Canada, what percentage would McKenzie have now?

MR. CLEMENT: I think it's over 50 percent. Some people have said it was between 78 and 80 percent. I think that's too high. Oddly enough, there isn't any really reliable statistics showing the total amount of work done that we've been able to find in Canada, and these are estimates made by our salesmen going into stores and looking at the packet seeds that are displayed in different stores across Canada, and we think - we know there's over 50 percent are McKenzie-Steele-Briggs and it's probably over 60 percent, but I don't think it's as high as 70 or 80.

MR. SPIVAK: Would you say that you had a higher percentage or a lower percentage of the business than, say, two years ago at the time of the purchase and the amalgamation with Steele-Briggs and Brett-Young?

MR. CLEMENT: I think the only way I can answer that, Mr. Spivak, is to say that on our packet seed production our salesmen have told us of two accounts that we've lost that have been replaced by three accounts of equal size. I judge from our sales force that we're at least holding our own in the packet seed field. In the mail order seed business, of which I've taken particular concern this last year because of the economies that can be developed there, we have actually quadrupled our mail order business in the last year. We are selling four times as much seed by mail order as we did a year ago. Now that's not the case in our store distribution but it is in our mail order business, so if you press me for an answer, my own view would be that we are holding our own in the chain store marketplace and that we're increasing our position in the mail order business.

MR. SPIVAK: Would it be incorrect to say that at the time of the amalgamation of Steele-Briggs and A. E. McKenzie that you, between both companies, controlled about 80 percent of the business?

MR. CLEMENT: I had heard that statement made but I don't think it took account of all the number of smaller businesses that were operated throughout Ontario and the western prairies. There are an awful lot of small seed businesses. There's one in Brandon that's very well run, does very well in the Brandon area.

MR. SPIVAK: But if I were to suggest to you that in effect what really is happening is that the percentage of business is dropping rather, notwithstanding the increase in profit of say Brett-Young as far as part of this is concerned, if I were to suggest to you that it is decreasing as a statement - I'm not saying that that is the case - would you agree or disagree?

MR. CLEMENT: I would say that I didn't think that your information was as accurate as that of our sales people who are out in the stores looking at the various displays. For example, Mr. Spivak, the Hudson Bay Company in Winnipeg handles McKenzie seed. Ordinarily they sell about half the seeds we put in the store for display. This year they sold 75 percent. We're going to have a return of 25 percent instead of 50 percent from that one store. We just had a

(MR. CLEMENT cont'd) . . . . . report on that this morning. I think we're going to have something of a similar experience all across Canada, because our salesmen are telling us that they're getting orders from refills for packets that are out in stores all over Canada. But until the last one is in and counted, we can't be precise about it. But the indication is so good that I almost hesitate to contemplate it.

MR. SPIVAK: Well, can I ask: Is there not additional competition in Eastern Canada and B.C. particularly?

MR. CLEMENT: Oh yes. Yes. B. C. are very good competitors of ours.

MR. SPIVAK: I put it to you that if you look and examine your sales, recognizing conditions of the market today, taking inflationary factors into account, the rise is not as significant as it may first appear.

MR. CLEMENT: Part of that is deliberate. We have eliminated some of the accounts that both Steele-Briggs and McKenzie's were handling, that we didn't see how anybody could make any money out of, and we're trying to eliminate those. What we're trying to do is to sell the part of the seed market that can be sold at a reasonable profit. If that means contracting the business by reducing some of our sales, then we'll try and service those people by mail order or by specially designed smaller, less expensive packets sold outright. I know you weren't here when I was sort of talking about that, but that is part of our planned approach, a deliberate reduction in our total sales until we find the right number of packets that we can handle profitably.

MR. SPIVAK: I wonder if I can get back to the Brett-Young Seed Company, and I just have a few more questions. Looking at your Note 4, which deals with Valuation of Inventory, it would indicate that, because of the change of inventory, the loss reflected in the financial statement is $372, 000 less than it otherwise would have been. This is the loss with respect to Brett-Young and this is taken into consideration with the total valuation which still places them at $1, 745, 000. This change in terms of valuation of inventory was certainly not something that management would necessarily want to agree to. Obviously it cost them money. Now, was that imposed by McKenzie on them?

MR. CLEMENT: On management?

MR. SPIVAK: Well, on the management and the board of Brett-Young Seeds.

MR. CLEMENT: Oh no. Brett-Young always did it this way and McKenzie always did it that way - in the first paragraph. A change was suggested by McKenzie's management to reflect more accurately the value of the inventory after we'd worked it up a bit in our plant.

MR. SPIVAK: Oh I see. That's fine. So that's McKenzie, not Brett-Young. Did Brett-Young then have a profit or loss this year?

MR. GREEN: Mr. Chairman, there's just one question . . .

MR. SPIVAK: No, no, I just . . .

MR. CLEMENT: We're just dealing with the consolidated statement, Mr. Spivak.

MR. GREEN: That's right. And the next question will be, did they lose more than $10, 000 or less than $10, 000; then more than $20, 000 or less than $20, 000. The Chairman has indicated that he doesn't feel that it's in the interests of the company to unconsolidate the statements.

MR. CHAIRMAN: Well that concludes the questions . . . Mr. Minaker?

MR. MINAKER: Mr. Chairman, through you to Mr. Clement. Getting back to Brett-Young, if I understand you correctly, after the five years are up these people can go into competition with A. E. McKenzie?

MR. CLEMENT: No.

MR. MINAKER: There is an agreement where they will stay out of the business for a certain number of years.

MR. CLEMENT: That's right.

MR. MINAKER: That's good to hear, because I misunderstood when Mr. Spivak came back with saying they could go into competition. There is an agreement where they will stay out of the . . .

MR. CLEMENT: They will stay out of any field that relates to the business of Brett-Young as it was when we . . .

MR. MINAKER: For a certain period of time. How many years is that?

MR. CLEMENT: I think it's seven years - I'm not just sure, Mr. Minaker. The agreement was drawn by a very competent draftsman in the legal profession here . . .

MR. GREEN: A fellow by the name of Clement, was it?

MR. CLEMENT: No. No. It was almost that good though.

MR. MINAKER: Mr. Chairman, with regard to your concern on what will happen when these three administrators leave, are there management trainees under contract to A. E. McKenzie in there now? Because I understand that it's only two more years to go before this event will occur.

MR. CLEMENT: There are trainees in the business. They do not feel now that they would wish to give a commitment for what would happen after the two-year period is up, and that does cause me some concern because I think it's a most useful business to our Western Canada economy and I would like to see it operate very efficiently as it has in the past. This is one of my objects this year, that if Brett-Young doesn't have a replacement management I want to make it my business to see that McKenzie trains a replacement management for Brett-Young, because that business is essential to our Western Canada economy.

MR. MINAKER: Also $2.2 million could go down the drain pretty quick.

MR. CLEMENT: Well, yes. There's that. Mind you, this is the money that those chaps earned with that business. McKenzie's hasn't put a five-cent piece into that business. We could sell it tomorrow for almost $2 million cash. Now that speaks pretty highly of the management in three years, to make $2 million out of seeds.

MR. MINAKER: I agree with you, Mr. Clement. What I was leading to was that would it be worth $2 million if those managers were not there?

MR. CLEMENT: No. No. But it would be to other people in the United States, in Switzerland, in Saskatchewan, who have the expertise in the brokerage of bulk seed, and there are a few individuals around the world apparently that can buy and sell bulk seed and do it profitably.

MR. MINAKER: Mr. Chairman, the other question is: Who are the members of A. E. McKenzie who sit on the board of Brett-Young? Are they designated from meeting to meeting or are they permanent so there is some continuity?

MR. CLEMENT: They're permanent and they will be elected - for the next year they will be elected a week from tonight.

MR. MINAKER: Who were last year's members?

MR. CLEMENT: Last year's members were our former President, Mr. Maruca, Mr. Tim Sumida - just the two of them. There are two McKenzie board members. Neither one of them are on McKenzie's payroll or board this year so they will be replaced.

MR. MINAKER: No, my main concern was that there would be some continuity after the administration left, also the ability to analyze the statements, etc.

Mr. Chairman, I'm sure that all of us here want to see McKenzie Seed turn around and start to show a profit, but I think I would like to comment with regard to what Mr. Green had earlier indicated about the company, and there's sort of an impression left that the company is paying off all of its interest commitments and so forth, without possibly creating other debt commitments in the same run. I was looking at the liability sheet, and while we're paying off the 1.1 million dollars, that if we are operating at a loss obviously we are not paying all of it off, or we are paying it off as far as the commitment but we are probably creating debts elsewhere, and I was noticing that your accounts payable are up some $280, 000 this year over last year. Would that account for part of where you're getting the money from to pay the loan?

MR. CLEMENT: Yes. Our accounts payable were in arrears while we were changing them from one bookkeeping system to the computer system. They are now completely current, and every month accounts payable is billed and all arrears are billed, and interest is billed on accounts that are over 60 days . . .

MR. MINAKER: No. I think, Mr. Clement, we are talking about accounts payable, not receivable.

MR. CLEMENT: Oh, all right. Accounts payable . . .

MR. MINAKER: But that would be part of it, would it, where you are picking up the moneys that went for your first commitment of paying the interest off?

MR. CLEMENT: Part of it, yes, and this was incurred in our . . . I mentioned that we had a big rip this year of our packet seeds because we had a price change. When you have a big rip you have accounts payable to the printer, you have accounts payable to the seed suppliers, you have extra staff put on in your plant. All those things came together and they hadn't been properly forecast. And they just eat the cash up faster than it was expected. We

(MR. CLEMENT cont'd) . . . . . were budgeted for over a 12-year period, as most budgets are, and instead it came all at once, so there was a cash shortage.

MR. MINAKER: The prime effort on the company was to pay off the interest on the loan, and then if it operates at a loss it puts the debt commitment in a different fashion. Is this correct? In other words . . .

MR. CLEMENT: Well, in effect, every morning we deposit our take in the bank and the bank takes the interest out. So it isn't really our wish that this should happen.

MR. MINAKER: The increase in "Loan from officer" by $109, 000, what is that? That's under the liabilities, Mr. Clement, there.

MR. CLEMENT: Increase in . . .

MR. MINAKER: It's, I think, one, two, three, four, fifth line down on the liabilities sheet. It's not numbered, unfortunately.

MR. CHAIRMAN: You have "Accounts payable and accrued liabilities," is that it?

MR. MINAKER: Yes. In the second last line there, "Loan from officer," $144, 800. It's up about $109, 000 this year.

MR. CLEMENT: Oh yes. In purchasing these shares from one of the shareholders of Brett-Young, McKenzie's owed him for his shares. He didn't have an immediate investment for the money we owed him so he loaned it back to us at 11-1/2 percent interest, which was one percent less than we were paying the bank. And that is the loan from an officer of Brett-Young.

MR. MINAKER: Was part of the money that you received from, I guess it would be the Lieutenant-Governor-in-Council, was it used to pay off the interest as well? Indirectly, probably.

MR. CLEMENT: Yes, just deposited it in the bank, and actually we immediately paid some of our seed suppliers as we didn't, of all things, want to lose our connection with old sources of supply of seeds because we were afraid then that we might have to ration seeds to our customers and we didn't want to be rationed ourselves because we hadn't paid our bills. So we got all our bills paid up and I believe our suppliers are quite happy with us although we haven't paid them all in full, but we have made good payments on all our accounts and I think we're in good standing with our suppliers now, thanks to that injection of capital.

MR. MINAKER: Thanks very much, Mr. Chairman.

MR. CHAIRMAN: That concludes the questions on A. E. McKenzie Company Ltd. and subsidiary companies. Would somebody move that the report be adopted?

MR. EVANS: I so move, Mr. Chairman, that the report be adopted.

MR. CHAIRMAN: Is it agreed? (Agreed) Thank you, Mr. Clement.

MR. CLEMENT: Thank you, Mr. Chairman. May we withdraw?

MR. CHAIRMAN: Yes. I would call upon the chairman of Leaf Rapids Corporation. Mr. Green will introduce the chairman.

MR. GREEN: Mr. Chairman, just with respect to Leaf Rapids Corporation, Mr. Chairman, Mr. Parasiuk, who reported for the Corporation last year and is the Chairman of the Board this year, will report again this year. He has indicated to me, Mr. Chairman, that all he has is the report that was given to the Committee by the Manitoba Development Corporation, which is what he dealt with last year. The report, the full financial report of the company, was distributed to the honourable members by the MDC so he doesn't have another copy of it, but he has a copy of the information sheet which was given by the MDC on which he answered questions on last year and which he expected would be the same procedure this year.

MR. CHAIRMAN: Yes, I believe the members of the committee did receive in a package from the Chairman of the MDC, the Leaf Rapids Development Corporation Auditor's Report and Financial Statement for the year ended March 31, 1974, and the Equity Investment Account Information Report, March, 1975. This was distributed to all members of the Committee in that whole package of various corporations that were presented by the Chairman, Mr. Parsons.

MR. GREEN: That's right.

MR. CHAIRMAN: Mr. Parasiuk, would you proceed with your introductory remarks?

MR. WILSON PARASIUK: Mr. Chairman, I would just like to be brief. The development is coming close to an end. The year end was March 31, 1975. We are in the process of assembling all these figures, which will really be the updated ones, and we'll be producing a type of annual report for next year which will take into account the entire development. What you've been seeing is just a piece of the development as it's been progressing over the last two years.

(MR. PARASIUK con't)

The town centre opened in September. Most of the facilities called for under the agreement between Sherrit-Gordon and the Province of Manitoba have in fact been put in place, primarily by Leaf Rapids Corporation but other groups have been involved as well within the community, putting in housing and some commercial facilities. The population of Leaf Rapids right now is approximately 2,500. About 430 to 450 people are employed in the mine. About 10 percent of the labour force is of native ancestry; about 10 percent of the population in the Town of Leaf Rapids is of native ancestry; and I think an important thing is that some of the people of native ancestry who are living in the town are not in fact miners. Some people are trappers, and other people, and they have come in to live in Leaf Rapids, and I think that's a fairly important trend that's taking place in light of the particular objectives of Leaf Rapids as a regional centre for the larger area, not just for the sake of the mining community.

All told, there has been something like $34 million invested within Leaf Rapids, and this breaks down into company investments, the Provincial Government investment, community investments and commercial investments. Leaf Rapids Corporation has been acting as a bridge financier for about $18 million of this. We are in the process now of arranging a longer term financing. That is under negotiation right now and we hope to have our long term financing in place within about three or four months. That will all be presented in, as I said, the detailed report which will be presented next year. The auditors come in in August, I think, and what you have before you is just an interim sheet listing what is taking place in the last fiscal year, in fact the fiscal year of one year back.

I'd be prepared now to answer questions. Oh, one thing I'd like to comment on, Mr. Chairman, and that's that Leaf Rapids community has been selected as an international project for the United Nations Conference on Settlements which will be held in Vancouver in the summer of 1976. If you can recall, there was a very major U. N. Conference on the Environment headed up by Maurice Strong a few years ago. This is a similar type of conference and Leaf Rapids, I think, is one of the 14 Canadian developments of one type or another that will be highlighted at this particular conference.

MR. CHAIRMAN: Thank you, Mr. Parasiuk. Are there any questions? Hearing none, I would entertain a motion that the report be received. Is it agreed? (Agreed) Thank you.

We can now proceed to the Communities Economic Development Fund and Mr. Loxley was giving a report at the last meeting. I believe there were a number of questions that were taken as notice and were going to be brought back today. I also have Mr. Parasiuk - there were questions that were going to be directed to Mr. Parasiuk and I believe he's prepared to answer those questions that have been requested from him at the last meeting on the Communities Economic Development Fund. Mr. Loxley, would you proceed?

MR. LOXLEY: Thank you, Mr. Chairman. We have put together a package of information that was requested at the last meeting. This package consists of some statistical detail with regard to the numbers of applications received and those declined, and more details on account under legal action, together with written details of loss incurred in the account of Fort Fashions Ltd. That information will now be circulated.

In addition to that. Mr. Jones would like to speak quite specifically to accusations that were made in the last meeting that the Fund had undertaken deception towards clients' creditors.

MR. CHAIRMAN: Mr. Jones.

MR. JONES: Mr. Chairman, as I mentioned at the last meeting, there have been many specific situations in which the Fund has provided a loan to establish a new business. The proceeds of the loan, clearly specified in a letter of commitment issued at the time the loan is approved, have been intended to be used, for example, for acquisition of certain fixed assets and also for the provision of a degree of initial or ongoing operating capital. I stated that for many businesses, beginning by means of the Fund's participation - and this is certainly the case where we're involved in financing, for example, general stores or restaurants - the Fund, to assist the borrower, and by his specific agreement, has undertaken to deal with companies such as Western Grocers, Merchants Consolidated, etc. for a variety of supplies in Winnipeg. The purpose of such an exercise is of course to work with the clients to obtain access to the best purchasing area, and in these cases we receive specific directions to pay such supplies by receipt of invoices billed directly to the Fund. Far from wishing to endanger a good working relationship between client and supplier, the Fund's involvement in such negotiations has been acknowledged as of great assistance to those first undertaking business ventures. Neither

(MR. JONES cont'd) . . . . .management nor staff of the Fund have any authority whatsoever to make a commitment to creditors of clients, but inevitably there have been occasions when a business in difficulty refers to Fund financing, and with no justification and substantiation. Creditors have approached us, and do still approach us occasionally on the basis that as the government is involved the government should pay. When this matter was raised in the last committee meeting, I believe that a particular account was in mind which is at present in receivership and also subject of an RCMP investigation.

Furthermore, in that particular case, a creditor issued a statement of claim against the Fund on the basis that the Fund had guaranteed payment of its account. The account in question was incurred early in 1972, and as we tabled before Committee on two occasions last session, a letter sent to the creditor concerned did indeed say that the Fund's client should be in a position to settle the account, in view of the commitment of financing from the Fund subject to disbursement of loan proceeds being made on receipt and registration of all security. This communication was authorized by the client concerned and, in hindsight, we now recognize that even though there was no commitment on behalf of the Fund itself, it has been recognized that such correspondence is capable of misinterpretation.

There has been one other particular account where the Fund endeavoured to insure that supplies of material would be available on the basis that the Fund had an interest in the operations of the company. To my knowledge there was no misleading information given, and certainly no subsequent misunderstanding or recourse to the Fund. One of the prime objectives of the Fund is to encourage and assist in the development of entrepreneurial leadership and within the confines and guidelines given to the board, and more specifically the board's instrutions to staff, we expect to have to give assistance of all kinds to our borrowers.

Mr. Chairman, in this general context also, I think it is appropriate for me now to draw the Committee's attention to the extremely hard work undertaken by the Fund's staff in terms of monitoring existing businesses and endeavouring to insure that the matter of accountability of public funds is dealt with correctly. I could give the committee many examples of specific accounts, which I don't think would be appropriate at this time of night, but I do want to emphasize that I spent 30 years in lending institutions, private and public, and from what I've seen our staff do, the degree of assistance we give our clients, I can say without hesitation that the Fund's staff has done and is continuing to do more in the way of ongoing monitoring than I've seen anywhere else.

MR. CHAIRMAN: Thank you, Mr. Jones. Mr. Spivak.

MR. SPIVAK: So that's the complete statement, is it? The answers and statement, that's it? To this point? --(Interjection)-- Then I'll go on to the question period.

MR. CHAIRMAN: Yes. Are there any other questions that were to be answered at this particular time that were taken as notice at the last meeting?

MR. JONES: Mr. Chairman, we tabled details of the numbers of applications received since inception.

MR. SPIVAK: Well if I may - before we do that. I wonder, Mr. Jones, whether we could get a copy of your statement. I know the statement has been put in Hansard, but it's not likely we'll get the Hansard for some time in this Committee, and there's no particular reason why this committee should be rushed. I wonder if it's possible to have your statement.

MR. JONES: The one I just gave?

MR. SPIVAK: Yes.

MR. JONES: I have no objections.

MR. CHAIRMAN: Do you have copies?

MR. JONES: I didn't read the whole thing, but I know what - yes, I can present this.

MR. CHAIRMAN: Okay. I'll take it and I'll have it xeroxed and give Mr. Spivak a copy. Would any other members like a copy? Mr. Johnston? Okay. Mr. Spivak, you have some questions?

MR. SPIVAK: Well I think Mr. Jones was going to proceed on this. Are you finished or not?

MR. JONES: Well, Mr. Spivak, you want to proceed with what we've tabled, do you?

MR. SPIVAK: Well then I would go on with a series of questions, yes.

MR. JONES: Well if the committee wishes, I'll go through what we've tabled, but the stuff we've tabled is in answer to questions, I believe, raised by Mr. Johnston.

MR. SPIVAK: Fine. All right. Let me then ask questions on Mr. Jones' statement. The

(MR. SPIVAK cont'd) . . . . .specific directions to pay, which were given by the borrower, was that given to the Fund in writing?

MR. JONES: Mr. Chairman, yes.

MR. SPIVAK: In all cases?

MR. JONES: To my knowledge, yes.

MR. SPIVAK: Is that a general direction to pay - not a specific direction - a general direction that the payment could be made.

MR. JONES: No, we ask for specific directions to pay. In fact, our treasurer who countersigns our cheques insists on seeing a copy of the specific letter of direction to pay with the named payee.

MR. SPIVAK: In all cases where there have been cheques signed in blank forwarded to the Fund, you're saying that the borrowers have given specific instructions in writing for the Fund to pay?

MR. JONES: Mr. Chairman, I think that's a somewhat slightly different issue. We covered the question I believe of the cheques, we dealt with it at the last committee meeting and in the last session. Where such cheques come in, with invoices or not, they are countersigned by designated countersignatures within the Fund. We do not ask for specific direction to pay when we have the invoice sent directly from the client to the Fund.

MR. SPIVAK: But is it not a fact that the Fund then sends a cheque to the creditor? The Fund sends a cheque - which is countersigned, and may have even in fact put in the name of the payee and the amount - directly to the creditor.

MR. JONES: Not in all cases.

MR. SPIVAK: No, but in some cases.

MR. JONES: In some cases, yes.

MR. SPIVAK: So in that case, there really is not a specific direction to pay. What there is is a procedure, whereby an invoice is forwarded with a blank cheque which is then filled out, countersigned by the Fund and then sent to the creditor. Has this happened in some cases?

MR. JONES: Yes.

MR. SPIVAK: Well, Mr. Jones, don't you believe that that suggests to the creditor that the government is involved? If payment comes from the Fund? And this is not in a case of receivership now, this is in the case of normal operations.

MR. JONES: Mr. Chairman, the cheque that the creditor would receive would be a cheque drawn on our client's bank account.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, you know there are cases now before the court. I assume that if there is a creditor who takes that position, he will so take that position; the Fund will take its legal position, and that would have to be decided by a court.

MR. SPIVAK: I assume that, and I assume that the particular case that Mr. Jones just mentioned is before the court - it will be decided - unless the government has settled it.

MR. GREEN: How then, Mr. Chairman, is Mr. Jones able to - he says that the Fund does not commit itself. You are suggesting that they do. We've taken the position that they don't, and I suggest that that is what is before the court.

MR. SPIVAK: Mr. Chairman, you know, I think that what I'm trying to do is explore how the Fund operated and then we'll make a deduction as to whether, you know, we can make . . .

MR. GREEN: That's quite all right, Mr. Chairman. But the last question . . .

MR. SPIVAK: Well, Mr. Chairman, I'd like to be in a position to finish my remarks, then Mr. Green may be able to . . .

MR. GREEN: But, Mr. Chairman, the last question was, that if there is a cheque which is sent in that way and signed, isn't that an indication that the Fund is committing itself to the payment of the account? Now that in itself is a deduction, that the honourable member wishes Mr. Jones to make . . .

MR. SPIVAK: I'll rephrase it then, Mr. Chairman, and ask Mr. Jones: Do you not believe that a creditor who receives a cheque from the Fund, sent from the Fund on the bank account of the company originally sent with the invoice to the Fund, cheque in blank, signed, to pay an amount determined by the Fund - do you not believe that a creditor would assume that the government itself was involved in it?

MR. CHAIRMAN: Mr. Jones.

MR. JONES: Well, there are several statements in that question, Mr. Spivak. You said

(MR. JONES cont'd) . . . . .that the payee, the amount determined by the Fund - that wouldn't be the case to start with. Secondly, I have no idea what the creditor would believe.

MR. GREEN: Well, Mr. Chairman, let me say this.

MR. CHAIRMAN: Mr. Green on a point of order.

MR. GREEN: When I follow directions to pay, even when they were sent on my bank account, when I had directions to pay from a mortgagor as to the proceeds of a loan, I did not then expect the person who received the payment would always look to me for payment of his future accounts.

MR. SPIVAK: Mr. Chairman, I ask Mr. Jones. Is it not a fact that the cheque that he forwarded was a cheque on the bank in the name of the company; that a cheque in some cases had been given to the Fund signed in blank with an invoice; and that the payee and the amount have been placed by the Fund, plus the countersignature of the Fund, and forwarded by the Fund to the creditor. Is that not the case?

MR. CHAIRMAN: Well, Mr. Spivak, I believe it was indicated it was not countersigned by the Fund but one of the people who are authorized to countersign the cheques from the company to . . .

MR. SPIVAK: No, the countersigning, Mr. Chairman, was done by an officer of the Fund. So in effect it was forwarded by the Fund to the creditor.

MR. GREEN: Well now he's saying "in effect", Mr. Chairman, I really don't know, but it the Fund required a signature before payment out - but let us assume that it was A.B. Construction per Jack Jones and Alec Smythe; it is A.B. Construction that is paying the account and it may be - and I'm not even sure as to how it was - that one of the signing officers as required by our loan agreement was that person.

MR. SPIVAK: Well, wouldn't you want to be interested in finding out how it was before you . . .

MR. GREEN: Well, Mr. Chairman, the fact is that I might be interested, but that's not what the honourable member has done. The honourable member has done exactly what he did at the last committee meeting. He made a statement which - because I believe a person makes responsible statements - turned out by his own colleague to be completely incorrect as to what occurred. He said, and he stated it as a fact, that after five years these people can compete with the Brett-Young, and that is the agreement that you have signed - then proceeded to say something else, so that Mr. Clement obviously in the string of questioning did not respond to that. It took Mr. Minaker to indicate that that was not the case.

MR. SPIVAK: Mr. Chairman, you know, if Mr. Green was so incensed or concerned about that, he should have brought that up at the time.

MR. GREEN: I accepted Mr. Spivak as having stated a fact, which shows that I was again mistaken in accepting what Mr. Spivak says.

MR. SPIVAK: Mr. Chairman, no matter how Mr. Green wants to use his legal talents to try and more or less mess this committee up, the fact is that the statements and questions that have been asked of the General Manager of the Fund will be asked, the records will show accurately what has happened. I again put it to the Chairman or to the General Manager.

MR. CHAIRMAN: Well, you can direct the question to the Chairman and if he wishes to answer the question he will answer it; otherwise to the General Manager.

MR. SPIVAK: Mr. Chairman, through you to the General Manager. He said that the Fund only paid out when the specific directions were given to pay and he talked about one situation. I now put to him and I put it to him again, another situation. Blank cheques given to loan officers who are countersigning officers or to loan officers who will have other members of the Fund who are countersigning officers given the invoices, the cheque is completed by the loan officer or the appropriate Fund official and based on the invoice the pay is placed and the amount is placed and it's forwarded from the Fund. Did this or did this not occur?

MR. CHAIRMAN: Mr. Jones.

MR. JONES: Mr. Chairman, yes that has occurred in the past, Mr. Spivak. We went through this I believe last year in the . . .

MR. SPIVAK: Fine. I accept that that's occurred. Then I say to you, do you not believe that that would give - well I'm asking now his position. Do you not believe that that would give the creditor an impression that the Fund was involved in . . .

MR. GREEN: Who the hell knows what impressions the creditor would get . . .

MR. SPIVAK: Well I would suggest, Mr. Chairman, to Mr. Jones, and he can contradict

(MR. SPIVAK cont'd) . . . . .me, that the impression I believe many had is that the Fund was directly involved, and in effect the creditors extended credit on the assumption . . .

MR. OSLAND: That's garbage.

MR. SPIVAK: . . . on the assumption that the Fund would in fact be involved.

MR. CHAIRMAN: Mr. Green, on a point of order?

MR. GREEN: Mr. Chairman, I really object - yes on a point of order - I object to the question. If a creditor had that impression, then he would have to deal with that. But I certainly do not get that impression. And if a creditor got that impression and has a grievance against the Fund on that account, let him step forward and make that grievance.

MR. CHAIRMAN: Mr. Jones.

MR. JONES: Mr. Chairman, May I just make a comment, Mr. Spivak, that last week, shortly after the last meeting of this committee on this Fund, for two subsequent days I had many calls from creditors of clients of the Fund asking me what was their position in relationship to their account with a client in view of the comments that were raised at this committee, and I, frankly, as far as the Fund is concerned the relationship is between the client and the supplier.

MR. GREEN: Yes, Mr. Chairman, on the point. If anybody has given the impression that payment in the manner which Mr. Jones has indicated gives the creditor a right against the Fund, it hasn't been the Communities Economic Development Fund, it's been Mr. Spivak; because he has given that impression abroad.

MR. SPIVAK: Mr. Chairman, there's always a villain in the piece, and of course it cannot be Mr. Green or the government; by no means. Even though they're the ones who sent the cheques out and countersigned the cheques, filled the invoices out, it has to be the person who raises it.

MR. GREEN: I wonder if the International Inn pays on that basis?

MR. SPIVAK: Well, as a matter of fact, probably Schreyer Equipment pays on that basis.

MR. GREEN: Well, I'm sure they don't. I'm sure they don't. I'm sure they don't.

MR. SPIVAK: Well my suspicion is that they pay some of the government accounts on that basis.

MR. CHAIRMAN: Order please. Are there any other questions?

MR. GREEN: We try to be a little more careful than that.

MR. CHAIRMAN: Mr. Green. Are there any other questions?

MR. GREEN: I move that Committee rise, Mr. Chairman.

MR. CHAIRMAN: Well can we . . . ?

MR. GREEN: No, no, I don't want to if there are questions.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: Are you going to deal with the other matters that Mr. Johnston brought up, Mr. Jones? Are you going to deal with these other matters?

MR. CHAIRMAN: Are there no questions? Mr. Johnston.

MR. GORDON JOHNSTON: Mr. Chairman, I believe that I asked for a detailed answer on the six points on the submission made by Mr. Jones, and I don't have a copy of it with me tonight. I believe Mr. Jones was going to proceed to answer. Is that correct?

MR. JONES: Yes.

MR. JOHNSTON: I didn't speak until Mr. Spivak's point had been cleared.

MR. JONES: Mr. Chairman, I think you're referring to the letter from the Provincial Auditor which we started to go through point by point.

MR. CHAIRMAN: That's the letter of November 7th, 1974, to Mr. Parasiuk from the Provincial Auditor, Mr. Ziprick.

MR. G. JOHNSTON: I believe you were on point 4 when the Committee adjourned.

MR. CHAIRMAN: Do you have any questions on it at this time, Mr. Johnston?

MR. G. JOHNSTON: Well I wanted an explanation of all the six points.

MR. JONES: Mr. Chairman, if you'll just give me a minute I'll find the . . .

Mr. Chairman, the last time we were here I didn't have in front of me the reply the Fund addressed to the Provincial Auditor to that letter dated November 7th. From recollection I covered I think Point 1, Point 2 and Point 3, and Point 4 was: The Provincial Auditor's statement that audited financial statements are not being received for most of the loans. The matter of availability of certain statements was dealt with in other reports.

Now in answer to Point No. 4 we entered into some additional discussion with the Provincial

(MR. JONES cont'd) . . . . .Auditor because the impact upon the Fund's clients by the suggestion made by Mr. Ziprick that all our loans be subjected to professionally qualified chartered accountants and assistants, the cost would be completely untenable in relation to the kinds of businesses, the kinds of loans we have made to them. Following from that, as we discussed at the last committee, Mr. Ziprick is looking into the situation of providing some ordered assistance to our clients. That is still under discussion and negotiation.

MR. GREEN: Mr. Chairman, just as a point of order, and I don't wish this to be misunderstood. Mr. Ziprick I believe was referring to each client having a professional auditor for his business. It is not the Fund's loans that were not audited, it is the business of the clients that did not have a professional auditor for each account. And as I indicated to the honourable members last week, we have authorized - we can't ask each client to have a professional auditor; we can't ask a taxi driver in The Pas to hire a professional auditor. The Honourable Member for Portage la Prairie knows how futile that would be. And the auditor will only - if he was there would not know how many taxi fares came in, or what expenses were paid for for dealing with those fares. We have told the Provincial Auditor that we open every one of our client's accounts to you, you go ahead and audit those accounts if you wish.

MR. JONES: Mr. Chairman, in regards to Point 5 Mr. Ziprick was commenting upon the manner in which miscellaneous charges to be recovered from borrowers have been billed by letters rather than on three numbered invoice forms. We dealt with this particular issue directly with Mr. Ziprick. He was referring to two different types of issues. One, the communication we have with our accounting function within the Manitoba Development Corporation; and the other, the manner in which we bill our clients. Our clients are billed by printed forms. They're not prenumbered but the forms are typed, there's a copy retained in the Fund's office. We can tell month by month what the billing is, and what is due. So we feel we've dealt with that particular comment of the Provincial Auditor.

Point 6. His review of the loan files indicated a substantial portion of the loans are in various stages of arrears. This particular point is being dealt with. Adequate provision has subsequently been made for allowance for doubtful accounts.

I believe that answers - we feel we have answered his letter of that date.

MR. G. JOHNSTON: That's fine.

MR. CHAIRMAN: Are there any other questions? Mr. Spivak.

MR. SPIVAK: Is Mr. Parasiuk going to be a witness, too?

MR. CHAIRMAN: Yes, he's available to answer any questions that were taken as notice

MR. SPIVAK: I mean as a witness before the Committee.

MR. CHAIRMAN: Mr. Parasiuk is not a witness before the Committee.

MR. SPIVAK: No, I know.

MR. CHAIRMAN: He was the Chairman prior to Mr. Loxley, and it was agreed, because he had the responsibility for the Communities Economic Development Fund up until the time Mr. Loxley was appointed, that we agreed that he would be called to answer those questions during the period that he was responsible for the Communities Economic Development Fund. He is not a witness as such before the committee. Mr. Spivak.

MR. SPIVAK: Mr. Parasiuk, I wonder whether you can indicate to the Committee, as Chairman of the Communities Economic Development Fund, that in the period of time that you were Chairman was there a concern on your part at any time that a director may be receiving a loan from the Fund?

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, on a point of order. We have been through this. The honourable member knows that each of the board members has been questioned on this; each of the people in the Fund have been questioned on this. They have given their information to the RCMP. The matter is now under investigation, and that is being dealt with.

MR. SPIVAK: Mr. Chairman, I don't believe it's being dealt with but there's no point in asking any questions.

A MEMBER: Oh brother.

MR. GREEN: Mr. Chairman, I move that Committee rise.

MR. CHAIRMAN: Pardon? Before we do so . . .

MR. GREEN: I do so only on the basis that Mr. Spivak now feels that it's useless for him to ask any more questions.

MR. SPIVAK: Mr. Chairman, there's no. . .

MR. CHAIRMAN: Order please. Can we proceed to adopt this report for 1974?

MR. SPIVAK: No, Mr. Chairman . . .

MR. GREEN: I move that the report be received.

MR. SPIVAK: Mr. Chairman, on the discussion as to whether the report be received, may I say that my understanding of the legislative committee is the ability of the members to be able to gain information. I am aware, and I think we all are aware, that there are certain matters that are supposedly now in the process of being investigated by the Attorney-General's office. I asked a general question of the Chairman, and I'm told that because - if witnesses or interviews have been given, the former Chairman is not in a position to answer.

MR. GREEN: No, I took that position, Mr. Chairman.

MR. SPIVAK: Well but, Mr. Chairman, then as the House Leader I guess he's the one who is . . .

MR. GREEN: I raised it as a point of order.

MR. SPIVAK: Well he raised it as a point of order. I would suggest at this point that if the Committee's function is now limited because an investigation is taking place, then I would suggest that it really stifles the ability for us to be able to effectively gain information. I would think that the answer is a very simple answer. It's either a yes or no answer on the part of the Chairman, and the Committee you know is in a position to either obtain that information or not. I know that there are other matters that are being investigated in other jurisdictions, and one has to look at the House of Commons and other situations and you don't find a restriction on the part of the members to obtain information. I am sure there are many questions that may very well be in the sensitive area of investigation which, in which . . .

MR. CHAIRMAN: Order please.

MR. SPIVAK: . . . it can be argued that it's not a specific question that should be answered.

MR. GREEN: Mr. Chairman, I have indicated to the House, to Committee, that with respect to the particular loan that the honourable member is referring to . . .

MR. SPIVAK: I didn't refer to any loan, Mr. Chairman. Mr. Chairman, I asked a specific . . .

MR. GREEN: Mr. Chairman, I am certain . . .

MR. CHAIRMAN: Mr. Green.

MR. SPIVAK: Yes but, you know, on the point of order. I asked a general question, and Mr. Green talks about a specific loan.

MR. GREEN: Well then I will tell you specifically, Mr. Chairman.

MR. SPIVAK: Well you know, Mr. Chairman . . .

MR. GREEN: That there was - I indicated to the House, I indicated to the honourable members, that with regard to a particular loan the Chairman has indicated that he asked me whether a member of the Fund was entitled to receive a loan, that it was not with respect to any named person or otherwise, that I advised him that they couldn't, and that from that point on a procedure with regard to a loan application that was put to the Fund was dealt with by the member . . .

MR. SPIVAK: Mr. Chairman, I really object to this. The evidence is the evidence that was to be given to this Committee by the Chairman, not Mr. Green restating what he said in the House.

MR. GREEN: Mr. Chairman, that is not what I am intending to do.

MR. SPIVAK: It's not a question of what he's intending to do it's whether this Committee is to be run by Mr. Green, controlled by Mr. Green, and dictated by Mr. Green.

MR. GREEN: The question is, Mr. Chairman, the reverse. Whether the committee just because Mr. Spivak has got ants in his pants is to be run by Mr. Spivak, and controlled by Mr. Spivak. I have indicated to all of the honourable members that all of the members of the Fund, the board of directors, including Mr. Parasiuk, including Mr. Jones, have been questioned by the RCMP with respect to a loan, which the honourable member is fully aware of because it's been referred to by the Attorney-General, having answered their questions to the RCMP, which is now under investigation and being reported to the Attorney-General, I do not believe that they have to deal with it again before Committee. They dealt with it last year.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: Mr. Chairman, the assumption then of course is what Mr. Green has said is the only situation. That's all. Even if his logic was correct at this point, that that

(MR. SPIVAK cont'd) . . . .situation that he's already deduced is the only one. And I come back to, you know, the obligation we have as members of the Legislature, and really the responsibility with respect to this committee, either we're going to be in a position to ask questions and not be brow-beaten, you know, realistically by Mr. Green, And that's exactly what's happening here. There was a general question put to the former Chairman of the Communities Economic Development Fund. He doesn't have to answer the question. He can give us a qualified answer. He can also deal in areas of sensitivity and simply say he's not prepared to deal with that. But surely we're in a position to be able to ask general questions, and if we can't then, you know, we might as well just close up shop and leave it until Mr. Green's discretion as to when, and on what basis, what information will be provided, how it will be provided, and if it will be provided.

MR. GREEN: Mr. Chairman, it's not at my discretion. I've had nothing whatsoever to do with the investigation or with the Attorney-General with respect to this matter.

MR. CHAIRMAN: We have a motion before us that the report be received.

MR. SPIVAK: Mr. Chairman, I want to place the question to the Chairman, the former Chairman of the Communities Economic Development Fund. If you feel that the question is out of order, that's fine.

MR. CHAIRMAN: Proceed.

MR. SPIVAK: I again place the question to him as to, you know, have there been occasions in which a loan to a director of the Fund has been brought to his attention?

MR. CHAIRMAN: Mr. Parasiuk.

MR. PARASIUK: Mr. Chairman, have there been occasions when a loan to a director . . .

MR. SPIVAK: Or an application for a loan to a company have been brought . . .

MR. PARASIUK: Mr. Chairman, we indicated this to the House last year, that recently there was a loan discussed in the board to Willard Lamirande and Ben Thompson. We indicated that, and that was the only instance, and that has been discussed already.

MR. SPIVAK: Was the loan application to both originally?

MR. PARASIUK: Mr. Chairman, that again was - you know, I can take out the transcripts from last year. We had three meetings of three hours apiece, and I guess we can go through them again. The application was to both of them originally.

MR. SPIVAK: Can you indicate . . .

MR. GREEN: Well, Mr. Chairman, now, you know, I really feel that I must at this point say that the matter that the honourable member is referring to specifically - and now there is only one - has been dealt with in the House, was dealt with by Committee last year, and was the subject of a thorough RCMP investigation. The Attorney-General has indicated to the House that he is waiting the results of the investigation. My knowledge of such matters is that when that is the case that the Attorney-General's Department is seized of the matter. And it's not as if the questions were not answered. They were answered. And accordingly, Mr. Chairman, I would merely indicate to the Chairman of the - to Mr. Parasiuk that I was not expecting that this line of questions would be repeated to him this year.

MR. CHAIRMAN: Yes. We had the meeting of the Communities Economic Development Fund on this matter and as it is under investigation, and it is the responsibility of the Attorney-General to report on this matter, I do not see this matter coming up again before this Committee.

MR. SPIVAK: Or probably for the next five years.

MR. CHAIRMAN: Mr. Spivak, I do not know - I am not a lawyer like you to know how . . .

MR. SPIVAK: You don't have to be a lawyer to figure that out, Mr. Chairman. Mr. Chairman, I wonder if I can ask another question to the Chairman. I wonder if he can indicate whether a question of conflict of interest between any of the directors and any of the companies which received loans from the Communities Economic Development Fund, was ever brought to his attention.

MR. CHAIRMAN: Mr. Parasiuk.

MR. PARASIUK: This was discussed I gather last meeting of the Standing Committee; senior legal counsel to the Fund did advise that there might be instances, and he is further reviewing the matter, and Mr. Jones had dealt with this last meeting.

MR. SPIVAK: I'm really not referring to - I know that Mr. Jones has dealt with it. I wasn't really referring to the statement. Mr. Jones' statement I guess was a statement that you've given to the solicitor of the Fund, to the Fund, some time in March and April of this

(MR. SPIVAK cont'd) . . . . . year. I believe that was a current statement. What I'd like to do is deal with the period of time that Mr. Parasiuk was Chairman, and find out whether a question of conflict of interest between the director and any of the companies receiving loans from the Fund was ever brought to his attention. I suggest conflict of interest in its widest sphere in doing business with the companies in which the loan took place, and doing business in which the companies who received the loan also had Fund directors appointed to the company itself as representatives of the Fund. Was the question of conflict of interest ever brought to his attention?

MR. PARASIUK: Mr. Chairman, I do not recall that type of issue being brought to my attention.

MR. GREEN: If Mr. Spivak has knowledge of such an incident, perhaps he should recollect Mr. Parasiuk, because Mr. Parasiuk has been questioned on general things and has given general answers, and then has been accused of lying because they were not specific.

MR. CHAIRMAN: There are no questions? We have the motion that the report be received. Is it agreed? (Agreed)

MR. GREEN: Committee rise.

MR. CHAIRMAN: Committee rise.