LEGISLATIVE ASSEMBLY OF MANITOBA

THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Tuesday, 24 June, 1986

TIME - 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. J. Maloway (Elmwood)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Doer, Kostyra, Schroeder

Messrs. Ashton, Birt, Johnston, Maloway, Manness, McCrae, Parasiuk and Scott

APPEARING: Mr. Hugh Jones, Chairman of the Board

Mr. Greg Goodwin, Corporate Secretary, Flyer Industries Limited

Mr. Frank McCann, Acting Chief of Operation, Flyer Industries Limited

Mr. Ted Chiswell, Financial Manager, Manitoba Development Corporation

MATTERS UNDER DISCUSSION:

Annual Report of Flyer Industries Limited

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MR. CHAIRMAN: I call the Committee on Economic Development to order to consider the Annual Report for Flyer. I would invite the Honourable Minister to make his opening statement and to introduce his staff.

HON. E. KOSTYRA: Thank you, Mr. Chairman.

First of all, I'd like to introduce the staff who are here from the Manitoba Development Corporation and Flyer Industries. The chairperson of the Board of Directors of Flyer Industries and the executive director of the Manitoba Development Corporation, Mr. Hugh Jones, on my immediate left; next to him is Mr. Greg Goodwin, who is the corporate secretary of Flyer Industries. Next to him is Mr. Frank McCann, who is the acting chief operating officer of Flyer Industries. To the back is Mr. Ted Chiswell, who is the finance manager with the Manitoba Development Corporation; and Mr. Joe Cottreau, who is in corporate relations with Manitoba Development Corporation.

Mr. Chairman, the government has agreed that this committee should be given the opportunity to conduct its review of Flyer Industries Limited, both from the standpoint of the regular examination of the annual report of the company as well as considerations of the final divestiture to the Den Oudsten Company of Holland as outlined in the Share Purchase Agreement signed on April 10, 1986.

Just in that regard, I'm pleased that Jan Devalk, who is the export manager from Den Oudsten is in the audience today sitting through the hearings.

To deal with this review, I will, of course, be asking Mr. Hugh Jones, the board chairman, to provide the committee with comments on the financial statements as well as the specifics of the agreement we have entered into.

As I indicated, we have Mr. Greg Goodwin, the Flyer corporate secretary, here, and also Mr. Frank McCann, who is the acting chief of operations of the company. Mr. McCann is a senior consultant with the Garr Group, a subsidiary of Touche Ross and has been involved in a functional capacity for some time prior to which he was a member of the Touche Ross consulting team which was doing work for Flyer.

At last year's standing committee and several times during the course of the last Session, I had indicated that the government had continued as aggressively as possible to deal with the divestiture of Flyer and a number of options were explored. Culminating in Cabinet's decision to divest the province's interest in this company to Den Oudsten and Sons of Woerden, Holland.

I reiterate an earlier statement I made to the effect that the government's entry into this agreement should ensure the maintenance and expansion of an urban bus industry in Manitoba assuring a reasonable level of continued employment for the Flyer workers.

Den Oudsten's entry into this industry in Canada will bring an important transfer of the latest technology, resulting in a more diversified product line to enhance the company's future.

Members of this committee may recall that prior to the public announcement of the divestiture, I made available a copy of the Share Purchase Agreement document to members of the Opposition.

The committee will understand that the closing date of this transaction is July 15 next, and Hugh Jones, Flyer officials, legal counsel for Den Oudsten and ourselves are continuing to ensure that the various provisions of that agreement are followed and certain conditions met prior to closing.

We can go into some of those later should that be the committee's wish, but for now let me finish my remarks and ask Mr. Jones to deal with the report before you for the operations of Flyer for the year ending December 31, 1985. He will undoubtedly ask Mr. Goodwin or Mr. McCann to assist him as we go along.

MR. CHAIRMAN: Mr. Jones.

MR. H. JONES: Mr. Chairman, my intention firstly this morning is to review the Flyer operations for the fiscal year ended December 31, 1985, as contained in the report now before you. I would suggest that after that review I'll provide a summary of the highlights of the divestiture process generally, and specifically those related to the Den Oudsten agreement. In the latter context, as the Minister has already indicated, copies have been made available.

As always, Mr. Chairman, in dealing with the report, I should begin by advising members of the committee of the board content of Flyer, indicating changes that have taken place since my last review.

During 1985, Miss Frances Statham of the firm of Aikins, Macaulay resigned as a director. That firm had been and is retained as counsel to the Den Oudsten group. The vacancy caused by her resignation was filled by Mr. Clive Derham. So currently the board consists of myself; Mr. Roy Church who, Mr. Chairman, by the way, is also in the audience this morning, who for many years was manager of the Winnipeg Transit operations; Mr. Albert Fia, a retired senior vice-president of engineering of Bristol Aerospace; Mr. Lloyd McGinnis, president of Wardrop and Associates, actively involved in a number of community organizations in Winnipeg and ex-president of the Winnipeg Chamber of Commerce; Mr. Leonard Remis, retired Deputy Minister of Industry and Commerce of the province; Bernard Thiessen, president of Grey Goose Bus Lines; Dan Shekhar, a private consultant; and Brian Kuysten and Tony Zienkiewicz, two worker representatives now on the board.

Mr. Chairman, during 1985, Mr. Ken Clark, the president of Flyer, continued to undertake the role I had indicated when we last met here, and has virtually completed resolving the variety of warranty claims and settlements, a major task that was assigned to him some time ago.

Before turning to the specifics of the statements, Mr. Chairman, let me just confirm that those contracts referred to last year, produced and delivered in 1985, were done on schedule and received well by Winnipeg and Toronto.

Since year-end, the company has again been producing, on schedule, the latest contract for the Toronto Transit Commission. Despite the well-publicized criticisms of Flyer, this contract has proceeded so well that they have, in fact, asked us to produce a further 10 buses for Toronto.

As a further general comment, Mr. Chairman, the work that I've referred to on a number of occasions in the past, undertaken by the Ontario Research Foundation, has now been completed, and the major report issued to us on the conclusions of the finite element analysis and stress testing of the Flyer Bus. The costs of that program and the overall costs of the various consulting contracts I will summarize later on in my report. At this stage, if I could just say that the positive reception of the major task undertaken by Flyer, to identify and program correction of structural defects, has been such that the two significant retrofit projects — for Boston and Chicago — may now proceed and legal agreements entered into.

With those general comments, Mr. Chairman, perhaps I could now turn to the financial statements which members have, and if I could begin by referring to the statement of operations which is statement No. 2, and I will give you just a little breakdown of the revenues comparing the bus sales, for example, from 1984-85. In'85, the year we're considering, 245 units were sold and delivered with a total gross revenue of $40.3 million. Last year, there were 200 buses sold for a gross revenue of $36.7 million.

In 1985, that 245-bus delivery consisted of a contract for Winnipeg of 75; San Francisco, 46; Toronto Transit Commission, 123; and B.C. Transit, 1. The balance of revenue, of course, was for part sales and they were 6.5 million in 1985 compared with 6.8 million of the previous year.

If I could go back, Mr. Chairman, to the balance sheet, members will note very quickly that the total assets that year end were just over 17.5 million. That's a decrease of 21.4 million from the 1984 total assets of 38.9. That decrease was caused primarily by a decrease in inventory of 13.8 and receivables of 7.8. The receivable balance at year end was 5.5 million; the bus receivable is for the B.C. Transit, 519,000; San Francisco, 86 and; Toronto Transit Commission, 3.9 million. No allowance for doubtful accounts has been set against these balances because the receivables have been collected.

I have further comments, Mr. Chairman, on the balance sheet, but perhaps if I could just cover some of the major ones here that accounts payable and accrued liabilities decreased by 4.5 to 5.5 million at year end and that was due primarily to a decrease in trade payables.

Summarizing the warranty provision, Mr. Chairman, which we've discussed at a number of these committees, I would say that of the 17 cities involved in the overall provision, only one of the pre-1985 issues remains to be settled. With the findings, as I've said, of the Ontario Research Foundation now complete, the major programs can proceed and ongoing warranty provisions for the new contracts remains at $3,000 per bus and this is the directors of Flyer consider to be adequate.

Last year specifically, Mr. Chairman, we made reference to the consulting work undertaken in 1984 and continuing through 1985. We then described aspects of the Major Productivity Improvement Program necessary because of weaknesses in almost every department in the Flyer operation. Lack of resources at middle management were commented upon and the consequent decision by the board to maintain, from the consultants, five or six functional managers. Last year, I gave an approximate cost to the committee for that consulting work to mid-'85 at 2.5 to 2.8 million. I understand that questions have been raised this year on the costs of this work and these managers and I advise the committee now that the consulting programs, per se, cost just over $3 million. I have a breakdown of those costs: Touche Ross, 1.9; Coopers Lybrand, 767,000; Marwick and Associates, which was the Massachusetts group which did a marketing study for us, 252,000 and; Effective Behaviour Management, 95,000.00.

Acting management position costs added to that were: Garr and Company, Touche Ross, 793,000; and Coopers and Lybrand, 822,000.00.

My final comment, Mr. Chairman, on the'85 financial statements relate to note 6 on Page 4. The 1985 legal claims relates to the Central New York Regional Authority, but with a negotiated agreement now in place, this claim is expected to be formally withdrawn very shortly. A similar situation exists in regard to the more significant claim, more significant in dollar terms, served on us by Boston earlier this year. Counsel is now working to have that claim withdrawn also in view of the retrofit agreement arranged and approved.

If I could turn then, Mr. Chairman, to the Flyer operations since the beginning of this year, total sales have been 6.8 million with 41 of the 65 buses for Toronto and Winnipeg completed and delivered. Total operating loss for the year to the end of May is $1.7 million. In addition to that, interest expense of just over 1.6 and ongoing consultant-functional management bring the total net loss to the end of May to 3.1 million. I have with me, Mr. Chairman, a more detailed analysis of the statements for the period I have just referred to if members require more information.

Coming to the divestiture, before last year's Standing Committee and subsequently throughout the intervening period to date, the divestiture exercise proceeded with contact with a variety of companies from the industry itself throughout the world, as well as from some other interested parties not involved in this kind of manufacturing.

Den Oudsten is a bus manufacturing company located in Woerden, Holland, established in 1925, marketing to a large extent to the Dutch Government with approximately 10 percent export to the Benelux countries and elsewhere. Research confirms the well-established, high reputation of this company which produces approximately 350 buses annually, 40-foot, 30-foot, and 60-foot articulated trolleys, as well as 40-foot inter-city buses with a well-developed fibreglass technology. Currently, the company has produced a prototype 30-foot inter-city bus, a completely new concept which they wish to adapt for the North American market.

Transitionally, Den Oudsten's intention would be to continue producing the existing upgraded Flyer model for the 1986-87 order book and gradually undertake an intensive plant reorganization along the lines of the facility in Holland with vastly improved technical management and technology, strategic moves to product diversification and a well-conceived equitable reduction in overheads. Den Oudsten is convinced that production and sale of 200 transit buses in each of the first couple of years would alone enable the new company to attain breakeven or better.

Innovative technological developments have been undertaken in the Netherlands by Den Oudsten with the latest prototype being a new low-floor transit bus. Furthermore, Mr. Chairman, the life cycle of their product is further enhanced by the fact that the exterior non-structural panels are made of fibreglass, avoiding corrosion and thus reduction in repair costs.

The Den Oudsten plant is unionized with good reported labour relations. The company has a work force currently of approximately 240 plus 30 administrative personnel.

The essentials of the divestiture agreement, Mr. Chairman, are:

Den Oudsten will purchase Flyer common shares for $1 million.

Den Oudsten will invest just over $2 million in the new Flyer, on closing, as a working capital loan to the company.

There will be a training agreement between Den Oudsten and the new Flyer. Technical training will be provided to selected existing employees in Holland.

Flyer, Den Oudsten and the Flyer union are to agree on amendments to the current collective agreement relating to such matters as seniority and the implementation of the training program.

Den Oudsten has prepared an extensive business plan which it covenants to use its reasonable efforts to implement, including employing an average of 250 over the next three years.

Den Oudsten will establish and maintain for at least five years a profit sharing plan for all employees of the new Flyer. Recently, that aspect has been added to in terms of the intention to provide a productivity incentive bonus as well.

Den Oudsten will not transfer any of its shares in Flyer for at least five years, and in the event that the new Flyer uses any tax-loss carry forward of Flyer Industries to reduce income for tax purposes prior to December 31, 1992, 25 percent of the tax loss realized will be paid to MDC as an increase in the purchase price of the shares if funds are not reinvested in the province.

Den Oudsten and Flyer will enter into a technology transfer agreement whereby Flyer will acquire all processes, specifications, techniques, drawings, and so on, for 13 diversified passenger vehicle products.

All the assets of Flyer, including accounts receivable, building, equipment and inventory will be transferred to MDC, prior to closing.

During the interim period, that is until the closing date of July 15 next, officials from Den Oudsten will have, and have had, input into management and direction of Flyer.

The existing Flyer facilities will be leased from MDC for $300,000 per annum, with an option to purchase them for $2.5 million on January 1, 1991.

MDC is expected to assist in arranging working capital facilities through a chartered bank of $8 million, and provide, as might be required, a guarantee up to that amount; but MDC's guarantee exposure will be reduced by $1 million per annum commencing in 1988 and the guarantee will be cancelled by July 15, 1991.

The province will provide indemnities for bonding purposes for 1988 in an amount not to exceed $15 million and for 1989, of an equal amount. The new Flyer will pay one-half of the insurance premium cost to a maximum of $300,000, to cover that indemnity.

MDC will provide an interest-free loan to Flyer of just over $3 million, plus withholding tax, and that figure is to be identified shortly, to enable Flyer to enter into technology transfer agreements with Den Oudsten. The loan shall be forgiven in three years, should the business plan be adhered to, and MDC will have security on the technology acquired by Flyer from the Dutch company.

MDC will also establish a training allowance fund in the amount of $1 million to enable Flyer to advance the technical skills of its employees with the training provided by Den Oudsten.

MDC will fund the expansion of the facilities on Pandora in order to allow Den Oudsten to consolidate all Flyer operations under one roof. The new Flyer will complete the existing contracts and MDC will discharge or fund the existing liabilities and obligations of Flyer, including bank loans and legal and commercial warranty obligations, including the Chicago and Boston retrofits and indemnify the new Flyer on all other pre-closing obligations.

MDC will fund severance payments of employees terminated over the next year and MDC will transfer the indebtedness of Flyer to Den Oudsten for $1.00.

MDC will purchase the minority shareholdings of Flyer so that MDC will be the sole owner prior to closing. That transaction has already taken place. Flyer shall redeem MDC's preferred shares at or prior to closing.

The Province of Manitoba is to provide a guarantee to Den Oudsten of the observance and compliance by MDC with its covenants, obligations and indemnities under the Share Purchase Agreement.

Those are the highlights, Mr. Chairman, and we are moving rapidly to conclude all these matters touching the agreement. Matters related to labour relations are not yet concluded, but hopefully discussions will continue between Den Oudsten, Flyer and the union.

The business plan prepared on behalf of the Den Oudsten group, by the international associates of Dunwoody and Company, contemplates an average total figure of 250 — 181 to 185 in the bargaining unit, and 65 staff. Contemplated upon takeover will be the completion of the Boston retrofit for 168 buses and the commencement, concurrently with that, of the major Chicago program for 200 buses. All of this work will be undertaken in the company in accordance with the compensation agreement providing for MDC to reimburse the company at a rate per man-hour, with appropriate adjustment formula included.

The forecast sales, Mr. Chairman, given to us by the Den Oudsten group have been prepared, in their opinion, on a very conservative basis; and, in our opinion, substantiated by information we have obtained both in terms of the Canadian and the U.S. market. As an example, Mr. Chairman, forthcoming procurements for Chicago, San Francisco, Oakland, Providence and Hauppage, New York, already total over 400 buses. All these and the Canadian procurements do not take into account any of the other Den Oudsten products, such as shuttle buses and the 30-foot intercity bus which are both expected to sell well.

Concluding my comments, Mr. Chairman, we would want to obviously wish the Den Oudsten Company well with their entry into this province and I would not want to let this opportunity pass by without expressing my sincere appreciation for the invaluable assistance given to me by my colleagues on the board and they, with me, are particularly appreciative of the input of all the workers at Flyer under extremely difficult circumstances.

MR. CHAIRMAN: At this point, I would appreciate some guidance from the committee. Do you wish to go through page by page through the report, or do you wish to just go into questions?

Mr. Johnston.

MR. F. JOHNSTON: Mr. Chairman, the comments of the chairman of the board and the Minister regarding Flyer are extensive, but they include the financial report of the company up until the end of 1985. But also the discussions of the chairman of the board in his papers are extensive on the purchase of Flyer by Den Oudsten. I think that we would probably like to have a general discussion or questions on basically the sale and purchase, because that is what is prominent at the present time. This committee is here to discuss this report and once that report is passed, technically the committee could rise.

I would prefer to have a more wide-ranging discussion on the comments that have been made on the report, and especially on the comments that have been made on the purchase because that's, after all, what most of the questions would be on. The financial report of the year 1985 is final. We know the losses of the company. I don't know that we have too much on that, but I wouldn't like to see the report passed immediately without having the opportunity to ask a lot of other questions.

HON. E. KOSTYRA: Well I would suggest to the committee that we just have open discussion or questions as they may arise, and leave the passing of the report to the last item of business for the committee.

MR. CHAIRMAN: Mr. Birt.

MR. C. BIRT: Are we then just going to be opening with general questions?

MR. CHAIRMAN: Yes.

Mr. Birt.

MR. C. BIRT: Then I would ask a question at this time. Thank you, Mr. Chairman.

Having gone through the proposed sale agreement, could the Minister or the chairman advise what the total amount of the liability is that the Province of Manitoba or MDC is being asked to undertake or to acquire, because there are some things where items are specified such as $1 million or $3 million, but there are other paragraphs that indicate that there are certain liabilities that will be picked up or certain staff costs that will be picked up, I'm wondering if the chairman or the government has put a total figure on what these potential liabilities will add up to.

MR. G. GOODWIN: The anticipated government financial impact is inclusive of a number of things that MDC has committed on behalf of Flyer up to this time, and also encompasses the costs to close the deal with Den Oudsten. Specifically, they are — this is both from MDC's point of view and under The Financial Administration Act, there have been some guarantees provided as well.

Specifically, they are repayment of bank loan under the MDC Finance Guarantees, and that is $30.5 million. Anticipated warranty settlements currently on the Flyer books is 9 million. We're anticipating that employee termination and severance will cost 2 million. Accounts payable at July 15 is anticipated to be 3.5 million. Funding of the remainder of the Toronto contract and the Boston and Chicago retrofits will cost 13.2 million. The Technology Loan and Training Fund will cost 4.1 million. The Pandora expansion is anticipated to cost 3.5 million.

That is offset by the share purchase of $1 million, so these are basically credits to that, accounts receivable of 5 million; inventory realization of 10 million; fixed asset lease payments of 1.5 million; the sale of the fixed assets in 1992, if Den Oudsten exercises their option, of 2.5 million; and we're anticipating approximately $1 million for the sale of the Fort Garry facilities. So that's a credit of 20.5 million for a net of 96.3 million. That also includes the current investment in Flyer that MDC has had and has been built up over a number of years, of $51 million. So the net figure that we're anticipating is $96.3 million.

This is basically a cash-out and cash-in calculation. Not included in this is the $8 million guarantee that MDC is to provide to Den Oudsten for their working capital; and also a $30 million provision of bond guarantees if they're required in 1988 and 1989.

There is also on the books of MDC a $54 million contingent liability for bonds which we anticipate will be offset by the $9 million in warranty settlements that will be negotiated over the next while. So when that 9 million is negotiated with the various properties, we anticipate that 53 million guarantee to fall away.

MR. H. JONES: If I could just clarify a couple of points there, Mr. Birt, on the commitment that we have made to provide performance bond guarantees of up to 30 million by the end of 1989, if necessary. That contingent liability is fully insurable, so it's not an added risk to the province.

I might just further comment on the existing bond guarantees, which have been out there for many years, which total 53 million. It's a $53 million contingent liability of the province.

As Mr. Goodwin said, with the settlements we have now pretty well gone right through. We will be going back to the insurance companies and they have agreed to this, to review the whole picture on that exposure, and we would expect by the end of this calendar year, to see that $53 million significantly reduced, if not cancelled.

MR. C. BIRT: So it's 96.3 million, plus the guarantee of 8 million. Now is the $53 or $54 million bond guarantees that are currently being negotiated, will that then drop down to what figure? You're saying 9 million is agreed, or is being negotiated at the moment, and the sum will substantially reduce. What will it be reduced to?

MR. H. JONES: Well, Mr. Birt, I can just give you an estimate. That $53 million guarantee is actually split between $33 million to the Continental Insurance Company, and $20 million to the Canadian Indemnity Company.

The Canadian Indemnity 20 million guarantee is related to some quite old contracts of Flyer, and the reason why they have not been prepared to move off that guarantee is because we have not arranged the warranty settlements. Now we talk about warranty settlements of 9 million, but the impact could well be that that $20 million will not be required at all, this is subject to negotiation. But what we're looking to see at the end of this year, Mr. Birt, is the very most in continuing exposure at 33, not 53, and that will diminish over time as we go along.

MR. C. BIRT: As I understand it then, the 9 million potentially is a settlement of a potential $20-odd million claim. Is that leaving you roughly your 33 million of past liabilities, as that how I understand it?

MR. H. JONES: Mr. Chairman, I agree with you, it is a little confusing. We have set aside a provision for 9 million to settle a number of claims from a number of cities — I talked about 17 cities, or so — we've gone through that exercise now with the exception of one. So really it requires hard negotiation with the insurance companies to try to get that guarantee exposure by the government down to almost nil. I'm trying to be as conservative as possible in my estimate of what they will agree to, because any liabilities on any of those contracts that run . . . Somebody told me, for example, recently that the Service Parts Agreement, which forms part of every contract, will run for 12 years and I personally find it ludicrous that the insurance industry would want guarantees to continue at that magnitude for 12 years. This requires a lot of negotiation.

It's difficult, Mr. Birt, to try to relate the $9 million figure to the 20 or the 33.

MR. C. BIRT: But as I understand it, you hope to negotiate a potential $20-odd million claim for about roughly $9 million. Is that right?

MR. G. GOODWIN: Well, it's not really a $20 million claim. What it is, is a guarantee by the government, or MDC, to a bonding company to provide bonding for Flyer. So our $53 or $54 million of guarantees allows Flyer approximately $120 million of bonding facilities, to bid on contracts.

Both bonding companies have indicated that when they see a significant improvement in the operations of Flyer, they will take another look at it. Because of both the past history of Flyer, but also the current history of the insurance or bonding market, it's very difficult to predict exactly how they will treat this in the future.

MR. C. BIRT: Mr. Chairman, what I'm trying to get a handle on is, roughly what is the position of the Province of Manitoba, or its agency, because of the contract and its past performance with Flyer? And a figure of 96 million was given. As outlined, there is the guarantee of an $8 million and either $54 million or $33 million in either bond or insurance claims as outstanding.

I just am saying 9 million is going to just knock off about 20 million of liability, if I'm understanding it right, so that we will still be on the hook, potentially, for another 33 million; plus then there's going to be the bonding guarantees that arise as of this contract.

So I'm just trying to get a total figure there. So if I would add the $30-odd million to the $33 million that we just talked about, plus the 8, plus the 96, which takes us to roughly $164 million, almost $170 million.

MR. H. JONES: Let me go back, if I could; $96.3 million is the dollar impact, financial impact on the government as a result of this, that Mr. Goodwin has given you. If you keep that figure in mind, $96.3 million, the total history of Flyer, right from Day One.

In addition to that, there are contingent liabilities. There would be a contingent liability in respect of the bank guarantee of up to $8 million. That's an added potential liability of the government.

In addition to that, we have guarantees to the bonding companies of $53 million. There are no claims — and I want to make that very clear — there are no claims under those bonds. With the settlements we've entered into, we believe, and I'll come back, Mr. Birt, to your comment that a minimum of $20 million reduction should be effected by the end of the year. There are no claims; it's a contingency and over time, the complete exposure under that guarantee will be off. It will be taken right off the province.

Even with the $33 million, that $33 million covers — let me put it this way — overcovers the contracts that Flyer has actually undertaken, because that guarantee was given, Mr. Birt, when Flyer was trying to negotiate a 363 contract with Chicago and they insisted on the guarantee and it's never been withdrawn.

So $96.3 million; $8 million for the bank guarantee; the new bonding guarantee of $30 million is not, and should not be construed as a contingent liability because it's fully insurable, there is no risk to the province in respect of that.

MR. CHAIRMAN: Mr. Birt, you're finished?

MR. C. BIRT: For the moment, yes.

MR. CHAIRMAN: Mr. Manness.

MR. C. MANNESS: Mr. Chairman, just two questions with respect to this. Following the explanation from Mr. Jones, it appears that the total loss to the province cannot drop below 96.3 million.

The Minister of Finance just recently brought forward a bill in the House, which gave authorization to MDC for the borrowing of another $65 million.

Will there be or could there be a further request of the Government of Manitoba to borrow money in support of Flyer's activities, past or future?

MR. H. JONES: Mr. Chairman, the answer to Mr. Manness is, no, there will be no further requirements, no new requirements whatsoever beyond what's been requested in this year's Loan Act.

MR. C. MANNESS: What has been requested and received support for, will cover any eventualities under warranty settlements or claims?

MR. H. JONES: Yes, Mr. Chairman.

MR. C. MANNESS: Is it a fair assessment that maybe none, or not all of that authority, will be required, that there may be unused authority in due course?

HON. E. KOSTYRA: I guess there are two points. Not all of the authority necessary is for Flyer, though most of it is. I'll let Mr. Jones comment on that or you may wish to raise that specifically when MDC is being dealt with; but the authority is required for concluding this arrangement, which includes the $8 million loan guarantee which will be reduced and off by 1991, so that authority then will be again available.

The same is true with respect to the authority for the bonding purpose because that has to be set aside even though it's insurable, and at such time as that's removed, then that authority becomes available. I don't know if Mr. Jones can comment on the rest of the authority in terms of MDC, but there was some additional amount just for the corporation.

MR. H. JONES: Mr. Chairman, the first two comments, I can't remember the precise figure. It's somewhere between 4 million and 5 million that was requested in that loan out for MDC's potential activities.

I might, Mr. Minister, add that some of the requirements here that Mr. Goodwin listed are already covered under the existing loan authority MDC has, so we're talking new money.

MR. F. JOHNSTON: In the contract, 3.20, there are no judgments or executions outstanding against the corporation. In addition, there is no suit, legal action, administrative arbitration or other proceedings or governmental investigation or any adverse — I won't read that whole section, but Section 20, and when you go to Schedule 21 — I think that would refer to Schedule 21 — and we have miscellaneous claims in that schedule. Regarding the ones that are not personnel injury claims, we have four claims.

I heard the figure of 17 and they're working them down. What relation does that statement have to these four claims? Are we only responsible for these four or is there 17 or what?

MR. H. JONES: I referred to claims coming from 17 transit authorities. A number of those were not, in any case, legal claims. They're what we defined, and I think we described this last year, as commercial claims. The four that are listed on Schedule 21 — for obvious reasons — have entered the litigation process; but as I explained in my remarks, Mr. Johnston, the first one, Central New York, that is being lifted because of the agreement we've entered into with them. Similarily, the third one, the Massachusetts Bay, which is Boston for $42 million, that also is in the process of being lifted as a claim. Those two claims will disappear. (B) is a claim by Flyer against a bonding company and I can discuss that later if you wish.

The fourth one is a claim which was recently publicized in the Free Press by Lawson National Distributing, and I should restrict my comments perhaps on that, in terms of the statement of defence that is presently going to be filed by Flyer and the comment that we have received, and I support that we don't believe that has merit; but I should perhaps not go into details on that.

MR. F. JOHNSTON: Then the figure of 17 that are probably warranty claims, if we want to refer to them as that, have not gone to any court proceedings and you have the 17, you've moved the 17 down to one, that you haven't made a final agreement on.

MR. H. JONES: That's right.

MR. F. JOHNSTON: So that other than that one, we can anticipate no other legal action, in other words, because of the agreements that have been made between MDC and Flyer on those warranty claims.

MR. H. JONES: We don't expect any other legal claims, Mr. Johnston.

MR. C. BIRT: As I understand the contract, if after this is completed on July 15, if any new legal proceedings develop that aren't outlined in Schedule 21, they will become the responsibility of MDC and not the responsibility of the purchaser. Is that correct?

MR. H. JONES: Anything in regard to contracts entered into by the existing Flyer Industries Ltd. will be an obligation by MDC, and there is one. I mentioned the fourth claim there for Lawson. Another claim has been served, I'm sorry, in the contract. It's a smaller claim; I believe it was for a fairly nominal amount, but the more recent one which is not listed in this schedule, again from Lawson, and my comments on that claim are exactly the same as they were on the earlier one.

MR. C. MANNESS: To finish this section in this schedule off, Mr. Chairman, I would ask Mr. Jones to give us some background with respect to the personal injury claims. Some of them have been outstanding, may indeed have been covered in other sessions in this committee, but I would ask whether or not there are significant claims and how they will be disposed of over the next little while.

MR. H. JONES: In my opinion, Mr. Manness, there's not one of those claims listed as significant. Advice I am receiving from counsel — and our counsel, of course, is using counsel in the United States — these will, if I can use this layman's expression, disappear in the very near future. This kind of claim, this kind of process is almost a hobby in certain parts of the United States and, in any case, Flyer's liability insurance coverage is such that there should be no dollar exposure to the company or to the province.

MR. F. JOHNSTON: I'll move to another area just for an explanation. We have 318, which is excepts as to Capital Expenditures, each of which is less than $5,000.00. That's a very normal clause. Certainly the purchaser would want to have that in there, and when we refer to Schedule 23, the contract for installation of overhead handling system at the Pandora plant, my question from that section leads to this, that I've heard the Pandora plant mentioned and it's been stated in press releases as going to be expanded.

I could find nothing in the agreement which states that there is going to be an expansion to that plant and naturally there won't be if it's not required, but there is in the agreement some financial arrangements on the plant. What is the expected increase in the Pandora plant?

HON. E. KOSTYRA: There is reference to the expansion in Schedule 20, Essential Terms and Conditions of Lease, Item No. 15 of that. In terms of the actual cost on it, we could maybe ask Mr. Goodwin to respond to that.

MR. G. GOODWIN: We're anticipating that 70,000 square foot addition will cost approximately $3.5 million.

MR. F. JOHNSTON: That is to be done by MDC because you're still the owner, but the words, you used the word "anticipate." That is strictly on the basis of a forecast of expanded business.

MR. G. GOODWIN: I use the word "anticipate" because the project hasn't gone out to a contractor to bid on as yet. So this is our estimate of what the expansion will cost.

MR. F. JOHNSTON: So that there is a commitment for MDC to put that expansion on?

MR. G. GOODWIN: Yes.

MR. F. JOHNSTON: When the expansion is completed, is there any rent changes from $300,000.00?

MR. G. GOODWIN: No.

MR. C. BIRT: Mr. Chairman, this is the facility, I believe, that it in 1991 can be purchased by Den Oudsten for 2.5 million? It'll be the total expanded plant, is that correct?

MR. H. JONES: That's correct.

MR. C. BIRT: And in today's value, assuming the 3.5 million contract is tendered and it's built, what's the total then value of the assets that will be purchased by Den Oudsten?

MR. G. GOODWIN: At December 31, 1985, the book value of all land, building, improvements, machinery, equipment, equipment under capital lease, and demonstration buses less accumulated depreciation was $3.3 million. That's the book value; it's inclusive of Fort Garry.

MR. C. BIRT: That's not necessarily the market value?

MR. G. GOODWIN: No.

MR. C. BIRT: So you would add the two together for almost a $7 million value at today's rate?

MR. G. GOODWIN: I suppose that would be the book value, yes.

MR. C. BIRT: The book value — so they will be purchasing the $7 million facility if they exercise that for $2.5 million, leaving the province with roughly a $5 million shortfall.

MR. G. GOODWIN: We will be receiving lease payments of $300,000 per year and we also anticipate that the Fort Garry facility, which is a component plant in Fort Garry, will be sold for approximately $1 million, so that's something that MDC will be receiving.

MR. C. BIRT: Rental is one thing. This sale of assets, and especially in light of the increasing asset value at book value, which would be about $7 million approximately, will be purchased in the future from $2.5 million. Now I appreciate there's going to be $1 million potential recovery. So there is then basically a $4.5 million loss in expenditure for equipment.

Now, when you gave us the list of some $96 million being the liability of the contract, was that shortfall or that loss outlined or contained in that $96 million?

HON. E. KOSTYRA: The costs of that expansion were listed in there as a figure of $3.5 million. So, in essence, the loss of that asset value, if you want to use your terms, was listed in terms of the cost of the divestiture.

If I just might adjust the general comment — I think I know what the member is approaching — I think the position that was taken with respect to the divestiture in all of the items contained in here was part of a negotiated package of demands by the company in terms of taking over Flyer operations. Of course, from the government side, the overall costs were what we were concerned about and also the viability of an ongoing industry.

So it may well be that if one looks at this area that it can be determined that the value that is given back to the government for the assets is less than either their book value or potential worth. Of course, potential worth is a difficult area when you're dealing with a factory of this size as to whether or not there are any buyers available who would purchase a factory of that size for the stated value.

MR. C. BIRT: I appreciate the difficulties in trying to negotiate a business sale such as this. All I'm attempting to do is determine the value that we are either selling it for or having to absorb losses for.

My concern is — and I can appreciate values of land and buildings in the future is perhaps a difficult thing to estimate — but it would seem to me that just given today's value, listing it at book value, actually it's not a $3.5 million expansion liability or commitment or undertaking that you're taking with this agreement, but actually it's more like a $4.5 million or $5 million because there will be a loss on the sale of the assets.

HON. E. KOSTYRA: The cost, as I've stated, we will have to pay out $3.5 million approximately for the expansion. What the province will be receiving back in terms of payment for the sale of the fixed assets, if that option is exercised by the company, is $2.5 million. So we will see a return of $2.5 million on that $3.5 million plus whatever present value is given, which is less than either the book value or probably the market value.

In terms of the other fixed asset, which is the Fort Garry plant, that will be sold by the Manitoba Development Corporation and that money returned to the Manitoba Development Corporation.

MR. C. BIRT: The rental of some, I think it's $300,000 a year during the term of this agreement, was that just a negotiated sum or is that figure that was arrived at, after having either independent analysis or consultation work done saying what that type of facility should generate in the way of cash revenue in the way of rental payments?

MR. H. JONES: No, that was a negotiated figure, Mr. Birt.

MR. C. BIRT: Thank you.

MR. C. MANNESS: Mr. Chairman, just to finish up in questioning with respect to the addition required in Pandora, was there no way that the purchaser would agree to purchasing Flyer unless that stipulation was built within the contract? What were they wanting to see? A total consolidation of manufacturing facilities? Did they see tremendous ineffeciency associated with the two or three locations as they now existed? And how was it that they were able to extract that additional capital requirement out of the Province of Manitoba?

MR. H. JONES: It is one of a number of conditions, Mr. Manness. In fact, there are currently three locations of Flyer and one of the very first observations that were made by the Den Oudsten people was this was highly inefficient, and the consolidation under one roof, as the facility in Holland is, was one of the first predetermined conditions.

HON. E. KOSTYRA: In terms of the question with respect to the negotiations, there was a longer list of proposals and a significantly higher cost than the end cost that the committee is reviewing at the present time in terms of the negotiations that went on with this particular company which started back in the summer of 1985 and concluded just prior to the public announcement of the sale.

This was one area that the company felt strongly about throughout the negotiations and, in the end, in order to consummate the divestiture agreement, the government agreed to it.

MR. C. MANNESS: Well, just a final question. The government has no guarantee by this contract beyond five years, and yet to try to divest Flyer, we, as a province, are ending up building a new facility for $3.5 million?

HON. E. KOSTYRA: That's correct. The facility, if the option isn't exercised, that expanded facility will remain an asset to the Development Corporation and to the province.

MR. F. JOHNSTON: Mr. Chairman, the purchase price of $1 million, the statement has been made, and it's made in the comments today, that there were negotiations or discussions with many other companies, one that we read about, the Ontario Bus, I believe, if I've got that name correctly, and the Motor Coach in Manitoba.

With all of these discussions, was there anybody else in your negotiations that made a proposal for a purchase price of more than $1 million?

MR. H. JONES: Well, Mr. Johnston, in a number of cases there would have been some difference — well, yes, there were some cases where the purchase price that was being offered was slightly higher than this one, but that is only one of the elements that had to be considered in this divestiture process. The purchase price itself was not the major issue.

HON. E. KOSTYRA: Some of the other proposals that were received over the year-and-a-half that the divestiture exercise went on related to other considerations, whether they were direct financial assistance or significant or greater loans to potential candidates, higher liability provisions; others were not direct purchase agreements but ones where management contracts with an option to purchase down the road with certain conditions attached to it.

So none of the active divestiture candidates' proposals would match on a point-by-point basis because each had a different set of conditions attached to them in terms of their offer. So there may have been some that offered more in terms of the purchase price but had higher grants or loans or liabilities attached to them.

MR. C. MANNESS: Mr. Chairman, given what the Minister says, how could one then compare, or could one compare quantifiably the number however many bids came in, however many tenders came in — I don't know how many there were in total — because when one looks down the list of provisions within the contract and if there were multivariations of this, then I wonder how the Development Corporation could properly compare them? Or could that be done in a quantifiable sense?

HON. E. KOSTYRA: It couldn't be done because at the time of these negotiations there were not any other active divestiture candidates. Other ones that were active were either rejected on the basis of the lack of chances of success or the overall costs or the fact that they were proposing a management contract rather than a purchase, and those negotiations had terminated some time prior.

Some negotiations were terminated by the companies themselves where they decided not to continue negotiations and withdrew their offers when there were attempts to negotiate further by the government. So at the time of consideration of this divestiture candidate, there were no other active divestiture candidates under consideration.

MR. C. MANNESS: Something troubles me, Mr. Chairman, and I refer back to Mr. Jones' remarks where he paints — and I can't find the page — a rather, I won't say rosy picture, but one that I think would cause us some satisfaction of the potential within the area of building buses and supplying major transit corporations and cities both within the nation and within the United States. Yet, nobody was prepared to come forward and provide a better arrangement than this, one which — we'll move into even more detail — but one which on the surface causes little risk to the purchaser. I can't see an awful lot of risk that the purchaser has with respect to this contract.

So I guess I find it hard to believe that other corporations would have asked for more without having seen, of course, their tenders or their bids.

HON. E. KOSTYRA: Well, I think we've been troubled by that for the last 18 months as we've moved along the divestiture path. Flyer, because of its history, and it hasn't been a good history, has not been an easy company to divest of in terms of trying to maintain an operating presence for an urban bus industry in the Province of Manitoba. So I have been troubled by the same thing that the member is troubled by and have been in the centre of those discussions and negotiations for 18 months. It was very difficult to come to a successful conclusion recognizing all of the factors that had to enter into that.

MR. CHAIRMAN: Mr. Scott.

MR. D. SCOTT: I just caught a couple of the latter comments. I think everyone is pleased to see the last chapter, perhaps, of the Flyer episode coming to an end for the Province of Manitoba with the sale if it goes through.

The sale of the properties, certainly it's being essentially given to them. We're actually building additional facilities to encourage them to take over the facility and to operate it. It's my understanding, and please correct me if I'm wrong, that if they do not operate the facility for a period of, is it four years or five years, that the property and the land returns to MDC who can then resell the operation. Is that correct?

MR. H. JONES: Mr. Chairman, it's a three-year period.

MR. D. SCOTT: It's a three-year term. So they have to operate the facility for three years, and the costs of the operation of the facility with their product line of a couple hundred buses a year is in the vicinity of $40 million to $50 million?

MR. H. JONES: Well, within that vicinity.

MR. D. SCOTT: Yes. So it, in fact, requires Den Oudsten to commit a very major investment into the operation as far as the operating of the firm and putting the risk out to commit to operate the firm for at least a three-year period, and beyond that period they then have full possession of any assets that have been transferred over to them?

MR. H. JONES: It's obviously in the clear best interests of Den Oudsten to operate this facility as successfully as possible. They have their own reputation, which is very, very significant, to deal with as well. But we can't get away, Mr. Scott, from the fact, as the Minister has confirmed and Mr. Manness has commented, that the risk to Den Oudsten compared with the rest of the province is far apart.

MR. D. SCOTT: In going through your comments, the note, one point on here, and this is about the only thing that's left as far as the negotiations between Den Oudsten and Flyer is the settlement. On Page 19 you refer to labour relations not yet concluded and hope the discussions will continue between Den Oudsten, Flyer and the union. How close is that to being concluded? Since this was prepared earlier, there are a few other things that have already taken place such as a minority — on the top of the same page — a purchase of minority shareholders is already completed, so this report I imagine was written up a week or two weeks ago?

MR. H. JONES: Well, actually, it was written up last night, Mr. Scott. That actually is the highlight of the agreement is a transcript from an area document. You're quite correct, some things have happened since.

In terms of the reference to not concluding matters related to labour relations, there are some difficulties there that I would, frankly, not want to go into too much detail because discussions are continuing between Flyer, Den Oudsten, and the union. There's a requirement on the part of Den Oudsten right from the beginning that certain amendments were being requested to the current collective agreement and discussions had taken place earlier between the Dutch principals and the union representatives as to the priority of those amendments so that they could accommodate their training programs so that they could model the facility in Winnipeg on the facility in Woerden. To do that, the company believed that certain changes had to be made and that issue is currently under negotiation.

MR. CHAIRMAN: Mr. McCrae.

MR. J. McCRAE: Mr. Chairman, just on the collective agreement, when does the present agreement expire?

MR. H. JONES: September 30 of this year.

HON. E. KOSTYRA: Just so that the member is clear, there is a condition precedent in the divestiture agreement that there has to be modifications to the collective agreement agreeable to the purchaser and to the union and to the Manitoba Development Corporation prior to the agreement being concluded, notwithstanding the fact that there is a current collective agreement in force.

MR. J. McCRAE: That is the point, Mr. Chairman. The agreement is conditional on the purchaser reaching that agreement, and if there's no agreement reached, as I understand it, by July 15, there is no deal. Is that about what the Minister just finished saying?

HON. E. KOSTYRA: Yes.

MR. J. McCRAE: We are running low on time here — July 15 is approaching quickly. I believe, Mr. Jones, expressed some concern, just how are things coming along?

MR. H. JONES: Well, we have requested the involvement of a mediator into this process and under the labour legislation an appointment will be made very quickly in the hope that will assist the parties to come together.

MR. J. McCRAE: Mr. Chairman, The Manitoba Labour Relations Act provides for successor rights. It appears that the act is not being used in this situation. Can I ask why not? The Manitoba Labour Relations Act provides for successor rights, and in this situation there appears to be a runaround The Manitoba Labour Relations Act for the purpose of this divestiture, and I wonder if the Minister can comment on why the provisions of The Manitoba Labour Relations Act were not relied upon by MDC in this situation.

HON. E. KOSTYRA: They were, Mr. McCrae. The purchaser said that they wanted revisions. It wasn't the condition that was attached to them by the Manitoba Development Corporation. It was a condition that attached by the purchaser in terms of making some modification to deal with their program for training.

MR. J. McCRAE: That's quite understandable that the purchaser would take that position. I've just asked why the MDC agreed to leave out or why MDC agreed not to use the provisions of The Manitoba Labour Relations Act?

MR. H. JONES: Well, we didn't really, Mr. McCrae. In all the discussions right from the beginning, and this is in close consultation with the union itself — if I may give you an example, I think this might clarify the position. To enable the company to undertake its training program of the current Flyer employees in Holland, for fairly obvious reasons, they wanted to be able to deal with that without regard to the normal seniority provisions in the current collective agreement, and in principle, that was not looked upon by the union as a stumbling block. It is a question of developing a process whereby that could be satisfactorily dealt with. From the beginning, it was always clearly expressed that successor rights are successor rights, but the company cannot undertake and fulfill it's business plan unless some changes are made, and it's in that respect negotiations are currently under way.

MR. J. McCRAE: Has the profit-sharing plan for employees been established or is that part of the process of the collective agreement?

MR. H. JONES: Well, I believe, it's covered — I'll refer to it in a minute — in the Share Purchase Agreement, but it's been discussed and conveyed to the union.

HON. E. KOSTYRA: It doesn't come into effect till after.

MR. J. McCRAE: Mr. Chairman, I think I heard the Minister that it doesn't come into effect until after the closing date. Therefore, can we make any comment at all? Can we judge whether this profit-sharing plan is any good, whether it will ever amount to anything when it's something that's to come into play after the closing date? Really, what is MDC getting or what are the employees getting here and what do they know that they're getting before the closing of a deal?

HON. E. KOSTYRA: I don't think they'll know they're getting anything unless the company makes a profit. If the company doesn't make a profit, then they won't be getting anything under it. I don't have any other comment other than that.

MR. J. McCRAE: Has the profit-sharing plan been discussed with union representatives or the worker representatives on the board?

MR. H. JONES: Yes, to both, Mr. Chairman.

MR. J. McCRAE: Any of the specifics or just the generalities?

MR. H. JONES: Well, on Page 33 of the Share Purchase Agreement, clause 8.01, there's a general description of what Den Oudsten would propose within 120 days after closing date. That has been clearly conveyed to the union.

MR. J. McCRAE: Mr. Chairman, just going on to clause 8.01(b), reference is made to reasonable efforts to implement the business plan. The business plan is mentioned throughout the Share Purchase Agreement, and we'd like to know a little bit more about what's in that business plan.

HON. E. KOSTYRA: I think we'd be able to answer specific questions. The business plan was not tabled because it is a commercially sensitive document, and for that reason it was not tabled as part of the agreement, because one can appreciate that it deals with marketing and other matters that are of a commercially sensitive nature in terms of other competition. If there is any specific questions, I think the chairman could respond to them.

MR. J. McCRAE: Well, Mr. Chairman, the only question that comes to my mind, not having access to the business plan for whatever reasons, and if there are certain commercial sensitivities involved, I could understand to some extent. But it seems to me, Mr. Chairman, that when we hear that reasonable efforts are to be applied in carrying out the business plan as opposed to best efforts — it seems to me we've heard the expression recently in the Chamber "toothless tiger" — and I wonder if reasonable efforts is inadequate in carrying out a business plan when best efforts might have been a better expression to use.

MR. H. JONES: Well, that's possible in terms of terminology, but I made a comment in my remarks and I perhaps reiterate it now that in our opinion, from research we've undertaken since this business plan was first received and refined, we believe very strongly it was prepared on a very conservative basis in terms of the marketplace. We've seen changes already in what Den Oudsten had estimated to be their sales level and even with the estimation they had provided to MDC and to the government, it was quite clear that that employment factor of 250 would be in place for three years.

I would suggest, without trying to prejudge anything, that information we are receiving now — and I believe the Den Oudsten people in Canada this last couple of weeks have received — indicate that there is much more business than we had thought to be available.

MR. C. BIRT: Mr. Chairman, in the past there have been agreements between the City of Winnipeg and Flyer to purchase a number of its buses and it's primarily been as a result of a provincial government through its grants to the city to compel it or to encourage it, shall we say, to put the best light on to acquire Flyer buses. I note that in the statistics for'84 and'85 Winnipeg is acquiring a number of the buses that were produced each year.

Is it the intention of the Provincial Government, as it relates to this proposed business plan, to continue to encourage or compel the City of Winnipeg to buy a certain number of buses per year so that this business plan will function?

HON. E. KOSTYRA: There are no conditions attached to this agreement that the province will compel the City of Winnipeg to purchase buses from this company. Whether or not that decision is attached to any funding arrangements that the city may enter into with the province with respect to further capital purchases, is something that I can't answer; but in terms of this agreement, there is no requirement that the province compel the City of Winnipeg to purchase buses from this company.

MR. C. BIRT: Mr. Chairman, I know it's not in the agreement but in past it's been almost mandatory for the City of Winnipeg to acquire buses and the Minister has been a member of Cabinet who has been involved in the decisions on either enticing or compelling, whatever word you want to use, for the City of Winnipeg to buy Flyer buses.

Is there an intention of this government to continue the City of Winnipeg to acquire Flyer buses after this agreement has gone through?

HON. E. KOSTYRA: As I said, I can't answer that question. There's nothing attached to this agreement, either specifically in the agreement or outside of the agreement, with respect to the purchase of buses by the City of Winnipeg from this company. If the decisions with respect to capital funding to the city and the purchases, is something that will be made independent of this.

I would just comment in the past that has been the case, though on occasions the province has funded the city to do rehabilitation work on existing buses or allow the city to purchase buses from other properties that were disposing of buses that were still in reasonable operating condition. So it wasn't tied only to the purchase of buses from Flyer.

But there's nothing in this agreement nor any commitment outside of this agreement for that ongoing requirement.

MR. C. BIRT: Mr. Chairman, recently there was an option to purchase buses from, I think, the City of Calgary. They were GM and they were going to be retrofitted and the province said no, you had to buy Flyer buses.

I can appreciate the Minister's comment on future commitments by Cabinet or strings that may be attached in the granting of monies to the city as far as purchasing future Flyer buses. But can the Minister or can the head of the MDC advise us whether or not in the proposed business plan for the next three or five years, there is a significant component of bus sales to be made to the City of Winnipeg?

MR. H. JONES: Yes, there are some sales forecast in the business plan for the City of Winnipeg over the next three years. They're not in large numbers but there are some in there.

HON. E. KOSTYRA: Also, just to inform the member that the principals of the company did meet with the Mayor and technical officials from the City of Winnipeg. I understand that the general discussion was quite positive in terms of the plans for the company and their product development, although obviously the city did not make any commitments to purchase. But I'm told that they were quite well received by the Mayor and also the Head of Winnipeg Transit.

MR. C. BIRT: The proposed purchase by the City of Winnipeg of potential buses, is it 20 percent, is it 50 percent of the proposed — I think the indication was they hope to sell at least 200 a year, or maybe it's 200 in the next 2 years, I can't remember the exact numbers in the press release — is the proposed sale or potential sale to the city, is it less than 50 percent, more than 50 percent, or using even the 25 percent figure?

MR. H. JONES: It's less than 25 percent, Mr. Birt.

MR. C. BIRT: Mr. Chairman, I believe there is somewhere in the neighbourhood of maybe 400 employees with the plants presently with Flyer. Now I can appreciate some of them have been laid off. Could the chairman or the Minister give us an exact employment status as of today before this agreement takes effect? How many are presently working; how many are in layoff positions; and how many have in fact been terminated, if they've been terminated? An approximation would do, I don't need an exact number.

MR. H. JONES: As at June 2, Mr. Chairman, the overall strength was down to 327 but there's been a further decrease since then, so the strength right now is approximately 301.

MR. C. BIRT: Mr. Chairman, will the decrease — is that just on layoff — other employment has not been terminated, the reduction of some 26 employees?

MR. CHAIRMAN: Mr. McCann.

MR. F. McCANN: Mr. Chairman, the layoffs are indefinite layoffs due to a decreased level of work until such time as we get the Boston and CTA retrofits into the Pandora facilities and also the impact of any additional new contracts.

MR. C. BIRT: Yes, Mr. Chairman, I believe that MDC will be liable for any costs of severance of employees for 12 months after this contract comes into place. Now, I believe that in the chairman's opening remarks this morning, he made reference to a workforce of approximately 250, and I don't want to get hung up on specific numbers here. It's more the general principle I'm concerned about.

If only 250 employees are used in the next year or two and either these indefinite leave employees or other employees would be laid off, is it in the collective agreement that these laid-off employees or potentially terminated employees, their compensation would be picked up by MDC?

HON. E. KOSTYRA: Under the provisions of The Labour Relations Act, there is a process for a setting up of committees where there are significant layoffs in industry. Under the provisions of that section of The Labour Relations Act, the Minister of Labour did appoint what's called a joint planning committee of union, management and government representatives.

That joint planning committee has been in effect for some time, resulting from the significant layoffs that occurred in January of this year. As a result of the work of that committee, they have come up with a number of issues or proposals or planned action to deal with the effects of the layoffs, some of which have been put into effect; some related to disputes over unemployment insurance; some related to the continuation of life insurance benefits. But the major provision of that related to the payment of severance pay, which was not an area that was of joint agreement, but one which was a minority position that was adopted by the corporation giving severance pay of two weeks per year for each year of service for people who are terminated permanently.

As I understand it — Mr. Jones could comment further — under the present situation where there are indefinite layoffs, there is a provision for recall over a 24-month period. Under the terms of the severance package, the employee will have the option to continue their status on layoff or take immediate provisions of the severance plan. Those costs are covered by the Manitoba Development Corporation and were identified in the figures that Mr. Goodwin gave to you of $2 million. We're informed that is a firm figure. But maybe Mr. Jones can comment further on that.

MR. H. JONES: Well, the estimate was $2 million. From what we've seen now, the specific recommendations of the joint planning committee, those costs will be well under that 2 million.

MR. C. BIRT: Is it then the intention that joint planning committee recommendation would be the basis for any future termination? If there's a further reduction in the workforce, is it the intention that would be the model by which compensation is handed out?

HON. E. KOSTYRA: Yes, in terms of the commitment within the next 12-month period. Yes, the position of the corporation is to provide severance on that basis for anyone who's terminated within the next 12 months.

MR. C. BIRT: The 2 million figure then is relating to these employees we've just talked about and potential future reduction using that formula that the Minister's made reference to.

HON. E. KOSTYRA: And knowing what is known in terms of the work in progress for the new plant over the next year. If it is better than that, obviously the costs would be lower. If it happens to be worse than that, though it can't be, because that's tied to the major retrofit contracts that we don't anticipate being any worse. It could be better, but that is the realistic projection.

MR. F. JOHNSTON: Mr. Chairman, I'm sure the Minister will remember my statement in committee last year, which was we'd be better off to pay somebody to buy Flyer. He took me at my word.

Now I want to make it very clear I'm not making any references against Den Oudsten whatsoever. I believe, and from what I have read and what we have been able to research, that they are an excellent company. I think that they're sincere people. But we're dealing with Manitoba taxpayers' money, and I think that there are some things that we have to have a little better explained.

We have a situation here where the province pay the loans, 3.065 million. The province grants for training, we're talking about new training, $1 million and, under Section 4.06 of the agreement, (d), that's what it does. The province guarantees $8 million line of credit under 5.03, Section (d). The province is to be surety for $30 billion of Flyer's future work.

That's under 5.4. We have, under the agreement of 8.1(d) and 8.1(b) that we have the words "exercise reasonable efforts" in both occasions, when we talk about the business plan 8.1(b). "The purchaser commits that it will use its reasonable efforts to implement its business plan . . . "which is not disclosed. Now we've been told this morning that they're working with a reputable company and they have a business plan. "Exercise reasonable efforts to cause Flyer to employ the number of persons contemplated by the business plan," and I understand and I take it that the business plan is for 250 people.

Now regarding the business plan, I go back to the time when I was criticized about a helicopter plant that I did not make an agreement with. The reason I didn't is they did not present a business plan. They were a European company that did not present a business plan.

Den Oudsten has not been in North America. Their sales from this plant will be North American, and I'm not going to ask how, but what does the business plan say from the point of view that they are going to have — are they going to hire salesmen to go out through the country? Are they going to open offices through North America? What is their basic plan of attack for the Dutch company to take over the plant in Manitoba, bring in their technology, which I might say we're paying for? We're paying them to bring their own technology here. What have they done to convince the North American market that they will produce a bus, and what are their plans to sell that bus for the benefit of employing people in Manitoba?

After all, we are now at 96,000; we're now building a new plant; we are now guaranteeing their loans. I can remember sitting in Cabinet when Flyer would say, they're quoting on a job. We've got to approve the guarantee of money. That isn't going to change. You're still going to be guaranteeing the money when they're quoting on jobs. What is the plan? — (Interjection) — Well, I hear the Member for Inkster say two years. If he really wants to look at it closely, after two or three years Den Oudsten could leave and we'd have nothing. It would cost them nothing. We have an insurance policy against the guarantees, which is really nothing when it comes to it. Read the agreement.

But the thing is, I want to boil down to what is going to happen to see that the agreement is carried out in the way that we all want to see it be carried out, because the province is on the hook, has been on the hook for a lot of money and is on the hook for a lot more.

MR. H. JONES: I'll try to respond generally, Mr. Johnston; then I'll pass it over to Mr. McCann to be specific about the U.S. market if not the Canadian market.

Firstly, you have to be assured, Mr. Johnston, that this business plan was very carefully and very well-prepared on a professional basis, and the Den Oudsten Company has spent probably two years, a minimum of two years exploring the North American marketplace in this industry.

The other aspect I'd like to touch on is that they have a number of very interesting contracts with off-shore markets which would also be of significant interest to them if they locate in Canada.

In the business plan for the first couple of years, the intent, the objective is to concentrate on the Canadian market which is strengthening, and then in the third year — this is a general intention — to proceed to develop a U.S. market. The strategy is to engage, as I understand it, recently, effective senior marketing people — one for the U.S., one for Canada — I believe that's the intention.

If I could just stop there and ask Mr. McCann to review the U.S. market. Mr. McCann, as we said at the beginning, is a senior member of the Garr group which is part of the Touche Ross organization and has spent many years in consulting and has been active in manufacturing generally throughout the continent.

Mr. McCann, would you like to comment on it? We discussed this briefly this morning before we came in.

MR. F. McCANN: Mr. Chairman, the Den Oudsten organization brings to the marketplace some very unique products, well-engineered and very well-thought out. One of the very unique things that they are doing, which is significantly different than any of the other European bus manufacturers that have tried to enter the market, they are taking the advantage of the best of both worlds.

In spite of the horror stories about Flyer, we are building right now probably as good a bus as is being built in North America. The quality problems, the workmanship problems, the manufacturing process problems and the lack of training of the operators has been put into place and we are now building a quality bus at about 45 percent fewer hours than under previous contracts.

There are very many friendly markets in the United States — to wit, the San Francisco area where Flyer has better than 1,000 units in place. Den Oudsten's plans, in a nut shell, are to bring an American lower chassis and drive train to the North American market with their advanced technology dealing in fibreglass and other types of construction.

The other foreign bus manufacturers, such as Neoplan, MAN and Volvo, brought to North America a European bus which was not built for the rugged conditions of North American inter-city roads, nor was there the infrastructure to support the foreign drive trains.

The marketing plans have been reviewed with CUTA. They have been very favourably impressed with the product that is coming to North America and there is ongoing marketing activities going on right now with several other municipalities.

Does that answer your question?

MR. F. JOHNSTON: Thank you. I believe, sincerely, after all of the work that has been done on the Flyer bus, the problems they have and the overcoming of problems, that they have a good bus.

I notice there's a name on the board here by the name of Albert Fia who got in his overalls and got a wrench out to find out things that were wrong with the bus, and who is a fellow of the Aeronautics Association of North America, a brilliant person — wise enough to be my constituent.

The North American plan, on the basis of the bus that's being built now, what is the reception for the new style of bus, the fibreglass, etc., that's been talked about here today?

MR. F. McCANN: The bus that will be presented to the North American market is primarily a hybrid; that is, using the rugged lower chassis and the North American drive train with their improved superstructure and their advanced technology of fibreglass.

General Motors has spent literally hundreds of millions of dollars on developing a similar product which is being sold in California right now.

MR. F. JOHNSTON: Has there been contact, using the Canadian Consuls throughout the United States so that they can put you in touch with the market in the United States? Have they used those at all now that they're going to be a Canadian company? I guess they can't do that until they are officially. But are there plans for that?

HON. E. KOSTYRA: There has been an opening of the doors between Den Oudsten and the various services that are available not only through the Provincial Government and the Trade Branch that assists Manitoba companies exporting but also through the offices of the Federal Government. There was a briefing with Federal Government officials and Den Oudsten at the time of the announcement of the sale. In addition, there have been discussions with representatives of the Chamber of Commerce and the business development organizations in Winnipeg to work with them to do what the member suggests.

MR. F. McCANN: In addition to that, I think it's an interesting fact that last week the Den Oudsten organization was invited by the top management of MUNI for a combination, which is the San Francisco market, were invited there as their guest because they're very much interested in the new Flyer organization and the products that they bring to the marketplace.

MR. F. JOHNSTON: On section 4(6), the incentives in the agreement as far as the agreement on the formula for man hours worked to complete the contracts, the more hours that are worked the higher payment to Flyer. There's no incentive to the purchaser to complete the work efficiently because MDC pays more if it isn't efficient from what it appears in that section.

Is there going to be a structure put in to make sure — and again I'm not making reference against the company; we've got dollars here being spent by Manitobans. What arrangement is being made to watch that particular process and that formula?

MR. H. JONES: I'm going to, Mr. Chairman, ask Mr. Chiswell to respond to that, if that's acceptable, because he's concentrated significantly on that aspect of the agreement.

MR. CHAIRMAN: Mr. Chiswell.

MR. T. CHISWELL: Mr. Chairman, this is a method of allocating overhead to the work that's to be completed by Flyer. It is estimated that the work will take one year and the Den Oudsten people have tried to determine what that cost will be and they've applied that cost to the labour hours. I might add that the overhead they have estimated is less than what the actual was for Flyer for the 1985 fiscal year.

There is another process whereby, if the total amount received by Den Oudsten for this work from the Toronto contract and other contracts, that the difference will be refunded to MDC. Of course, if there was a shortfall, then MDC will be responsible as well.

MR. CHAIRMAN: Mr. Manness.

MR. C. MANNESS: Mr. Chairman, I'd like to go to Page 13 . . .

MR. F. JOHNSTON: I just had one other on that particular section.

MR. CHAIRMAN: Is Mr. Manness deferring to Mr. Johnston?

Mr. Johnston.

MR. F. JOHNSTON: The inventory is supplied without cost to Flyer. I believe there's an arrangement where Flyer's entitled to be paid, or Flyer is paid by the customer for such inventory. Is that inventory now going to be current inventory? Is it going to be inventory that Flyer is going to use? If they use it, they'll be paid by the customer I believe, but is the province or MDC going to be left sitting with a large inventory that might not be able to be used?

MR. G. GOODWIN: Mr. Chairman, the inventory is to be transferred to MDC upon closing and the inventory that is on the Flyer books at the present time is that inventory for the Toronto Transit Commission contract. All inventory except work in process is to be transferred out to MDC; so raw material components, spare parts is to be transferred to MDC and we will sell it, basically, back to Den Oudsten when they require it.

MR. F. JOHNSTON: And Flyer will be paid monthly by MDC, so in other words, the company won't have to wait for the customer to pay. They'll be receiving their money monthly from MDC on that inventory. Is that the way that reads?

MR. G. GOODWIN: Can you tell me which section you're referring to?

MR. F. JOHNSTON: I'm referring to Section 406 on Page . . . or I might have that wrong on inventory, on the cash flow or the payment for the inventory . . .

MR. H. JONES: If you look at Schedule 12, Mr. Johnston, and I think you said the second page, the last paragraph.

MR. F. JOHNSTON: I didn't hear what Mr. Jones' last words, second page, what?

MR. H. JONES: It's the last clause; it's on Page 2, clause C, which is the topic that . . .

MR. F. JOHNSTON: I've confused that with inventory.

MR. C. MANNESS: Mr. Chairman, I'd like to ask a number of questions with respect to Mr. Jones' comments that he made earlier on, and I'd refer firstly to Page 13, first paragraph.

He says words to the effect that he expects the new company might be able to attain a break-even or even better situation the first two years. How could that be the case when, indeed, when we the province ran Flyer, that could not occur?

MR. H. JONES: Mr. Chairman, the crude answer to that is that a vast difference between the management and technology and organization being brought into the new Flyer, compared with the experience of Flyer Industries over at least 10 years. That's the first comment I would make.

I think, Mr. Manness, also my comment was, and I've got it in front of me, attaining a sales level of 200 units per annum will develop a break even position, that that's the understanding we have. But it's management, organization technology.

MR. C. MANNESS: Mr. Chairman, the number of buses are the same. Mr. Jones talks about management and yet I notice, back on Page 9, we paid again an incredible amount of money for management, in the consulting fees, and I know we did the year previous to'85, that being'84. Is Mr. Jones indicating that all the monies the province directed to management consultants was not well spent, that indeed we did not receive, as a province, proper return for that expenditure of funds?

MR. H. JONES: Mr. Manness, I think that in last year's committee I said that the level of dollars that were then being expended — and we've seen subsequently the total extent of that expenditure on the consulting projects — did not give the return to the province, as you said, correctly, and we said this last year, that we had expected.

The fact is though that those consulting projects were undertaken as a result of many years of disarray in the company and it was far more, they were far more than an exercise in consulting and the production of nice reports. It was an absolute on-the-shop-floor productivity improvement program, at I agree, very significant costs.

With the new Flyer, the Den Oudsten takeover, the management level will be significantly lower, far tighter control and more effective management.

MR. C. MANNESS: That begs the question, Mr. Jones, if we hadn't sold Flyer to Den Oudsten, would Flyer, as it is presently being constituted, have made money or broke even in 1986?

HON. E. KOSTYRA: The 1986 Flyer, if it would continue operations for the total year would have lost money, at least the same level as the losses of the year that we're currently reviewing, but that is hypothetical because the government will continue operations if the divestiture is not successful.

MR. C. MANNESS: Well, I understand what the Minister is saying. Then let's move out to 1987, which is also hypothetical. I'm asking a question in the context of the statement made by Mr. Jones, where he seems to believe that just the fact that Flyer is now being owned by a new company, that that in itself — even though the number of buses being produced will not significantly change, even though I don't believe there will be a major consolidation within the first two years with respect to the manufacturing locations — will cause new Flyer to attain a break-even or better position, using his words.

MR. H. JONES: Well, the consolidation, Mr. Manness, first of all, would take place very, very quickly. The consolidation into one facility will have an enormous impact on the overheads and the costs of running the company. The technology, the diversification of the product line, which Flyer has never had, will really be the most important factor in making this company successful.

MR. C. MANNESS: When Mr. Jones talks about the diversification of product line, is he saying that there could have been more profit made if we had more than just a standard model to offer to potential buyers?

MR. H. JONES: Market conditions were such, Mr. Manness, that weak markets in this industry, specifically in the U.S., Flyer had one product. We were custom builders. We were at the mercy of the larger U.S. cities which required significant options and, unfortunately, the operational history in Flyer has been such that only now, after this expenditure of money with the Ontario Research Foundation, after the expenditure of money with the consultants that we've indicated, have we reached a stage when the fixes are correct.

HON. E. KOSTYRA: Just to further comment on that. Flyer basically has been in the business of making three different product lines, one of which is not in very high demand and that being the trolley bus — there obviously may be some future there. But the new owners are bringing existing technology for 13 different product lines, which range from the kind of bus that Flyer now produces to the articulated buses, to smaller buses and larger buses. For Flyer to be able to diversify, to gain that technology, would have required a pretty significant financial commitment by the province to the existing Flyer, in order to develop that technology, in order to diversify to get to the state that the existing Den Oudsten Company is at in terms of the technology.

So that one of the significant aspects of the divestiture is that technology, that diversification is coming to the existing or revitalized Flyer, if I could use that term. For Flyer to do that on its own would have required considerable commitment of funds by the province for that research and development to take place at Flyer, because they had a limited product line. As the chairman pointed out, at the time when that limited product line was successful was under different market conditions, both in terms of the size of the market and the demands of the market for product.

MR. H. JONES: Just one last comment, Mr. Manness. We shouldn't overlook also the high cost of the debt financing of Flyer. The bank borrowings of $30 million and the bank interest rates, plus the debts from MDC has been a burden for some considerable time and that will essentially disappear.

MR. C. MANNESS: Mr. Chairman, I know that's reflected in the balance sheet, but I didn't know that there was a major entry for that on the profit and loss statement. I mean there's a major entry but even on general operations there have been significant losses, before accounting interest charges.

MR. H. JONES: Interest charges, Mr. Manness, were over $3 million in 1985, 2.8 in 1984.

MR. C. MANNESS: I would ask Mr. Jones, in referring to Page 9 specifically, at the end of his comments — or even the Minister — why would Flyer, when it was obviously looking to divest — or MDC was looking to divest of Flyer — would there be market studies and effective behavioural management studies, consulting work being done in 1986? What was the purpose? I'd ask the Minister whether he was aware that these studies were being done at the same time he was actively seeking to dispose of Flyer?

HON. E. KOSTYRA: These were not done in 1986. If you go back to the previous page, this is a new — Mr. Manness had the question I think during debate on the Loan Bill — what was the total cost of consulting work at Flyer? This is providing that report. These go back to 1984. Some of the costs that are incurred in this current year relate to the acting management positions, though those are also spread over a period of time.

But in terms of your specific question on the market study, that was done way back in 1984 and the information contained in there, in part, led up to the decision to divest of Flyer. It was a marketing study done to determine what the future of the market was. In general, the study indicated to us that the market was relatively flat for the specific kind of bus that Flyer was in, and one of the obvious things from that study was the need for diversified product line. But that particular study was done in 1984. It was one of the first studies that was done, so all of this information was to bring it all together to show the total cost of that rather than that that was just occurred in 1986.

MR. C. MANNESS: I refer Mr. Jones to Page 14, by his final comments, talking about amendments to current collective agreements, and indicates that they are to agree. What would happen if they did not agree?

MR. H. JONES: I think the Minister already answered that question, Mr. Manness. If there's not an agreement on that issue, then the deal doesn't go through.

MR. C. MANNESS: I'm sorry, I was probably out of the room at that time, Mr. Chairman.

MR. J. McCRAE: Just on that, Mr. Chairman, and taking the committee back to clause 17.23 of the collective agreement — (Interjection) — sorry of the Share Purchase Agreement — the collective agreement discussed just a moment ago by Mr. Manness, the negotiations going on between the union and Flyer and the purchaser are centered around seniority and training program, according to the Share Purchase Agreement. My question is: are there discussions about matters other than those going on with the union, the purchaser and Flyer as we approach July 15?

MR. H. JONES: Mr. McCrae, I think my earlier comment was that when we first were involved in these negotiations as it related to the existence of a collective agreement in Flyer, the major concerns early in the stage by Den Oudsten were the seniority provisions; but as they became more acquainted with the specifics of the collective agreement which exists in Flyer, there were a number of other areas they also wanted taken into consideration so that they could, as I said earlier, come into Manitoba, so organize the plant here, that it would be almost a replica of the conditions in Holland.

Now, a number of other issues are under discussion and I would like to suggest, Mr. Chairman, I would prefer not to go into the details at this stage when, as I have confirmed, there is a mediator entering into this picture and I think it would be better for him to proceed and see how far we get.

MR. C. BIRT: The Share Purchase Agreement refers to some almost half-a-million common shares to be sold. Does that include the shares of the minority shareholders?

MR. H. JONES: We have already redeemed the preferred shares, Mr. Birt. MDC has purchased the preferred shares which were outstanding. There were about 18 different minority interests and the common shares are now, of course, all owned by MDC. There was only one other common shareholder. I think it was 350 common shares held privately.

MR. C. BIRT: The purchaser is getting just short of $2 per common share to acquire all of the issued common shares. What was the price paid to buy out the minority shareholders either on the common shares or, I think you had indicated there was a preferred class of shares, some 18 different ones?

MR. H. JONES: Mr. Chairman, the common share buy-out was $15,000 and the overall cost for the preferred share purchase was 318,000.00.

MR. C. BIRT: Thank you. The total number of preferred shares that were bought out?

MR. H. JONES: 318,000 shares.

MR. C. BIRT: Shares at $1 apiece?

MR. H. JONES: That's correct.

MR. C. BIRT: Thank you.

In clause 4 of the proposed agreement, there is reference to a formula worked out where the purchaser will do certain work for Flyer on existing contracts or potential contracts that are either secured or in the works, and the question I have is that the formula that was worked out, does it have any relationship to the tendered contract? In other words, if a tender contract, let's say for $3 million, and if it was one of the Boston contracts, when the purchaser does this work is there a cap, that the most that they can charge for it, $3 million, or they are just paid for pure time as per the formula set out?

HON. E. KOSTYRA: We went through this. Maybe you left . . . .

MR. C. BIRT: Oh, I'm sorry.

HON. E. KOSTYRA: . . . the room for awhile and Mr. Johnston that question.

MR. C. BIRT: Okay, if the questions have been asked, I won't bother.

HON. E. KOSTYRA: Was it all those aspects?

MR. C. BIRT: I'm sorry. Okay then.

MR. H. JONES: It's not related to the tendered price. I think perhaps we could make this a little clearer. The reality is that the contracts which will be undertaken under this formula by the new owners now will only be retrofit programs for Boston and Chicago. There are no other contracts. We are proceeding to finish the Toronto contracts and I would suggest that will be finished before the actual takeover. So, we're only dealing with retrofit programs which fall under the warranty aspects, so it's not, Mr. Birt, a question of tendering.

MR. C. BIRT: If the workmanship that's done in this potential area and there's faulty work done by the purchaser, is there some method of recovery beween MDC and the purchaser?

A MEMBER: Yes.

MR. H. JONES: Yes, absolutely, and is provided for in the agreement.

MR. C. BIRT: Dealing with the area of inventory purchase, has that been touched on yet? — (Interjection) — If it was, then I won't . . .

MR. C. MANNESS: Mr. Chairman, 4.06, and some of it has just been discussed, I would ask Mr. Jones when will MDC's responsibility in a calendar sense as far as the retrofit program, when does he expect it to be complete such that MDC will not have to negotiate with the new purchaser for time or space allocation within the production plan?

MR. H. JONES: We would expect, Mr. Manness, to see both those retrofit programs fully completed by the end of next June.

MR. C. MANNESS: I would ask Mr. Jones whether that activity will be consuming the full resource both of labour and of management during that period of time from July 15 now till next June, or will Den Oudsten be in a position to begin to sell and manufacture their own buses?

MR. F. McCANN: Mr. Chairman, the physical properties will be primarily occupied by the retrofit program — I would say probably 80 percent of the manufacturing space — however, right now, there is a joint venture going on in Holland where we have some engineers that are over there working with their engineers doing the front-end work on developing the new hybrid bus that will be introduced into the North American market.

There will be some parallel activities going on and hopefully as the retrofit work winds down, that slack will be taken up with the production of new units of whatever configurations are sold.

MR. C. MANNESS: So what you're saying then is that Den Oudsten will not, in fact, be producing any new buses for sale until mid-1987 at the earliest?

MR. F. McCANN: I can't answer that specifically, but their marketing plan shows that there will be some production. What those configurations will be I don't know.

MR. H. JONES: The indications, Mr. Chairman, are that there will some production of new buses, but it'll be '87, of course, before it gets into full run.

MR. C. MANNESS: So then, for all intents and purposes, the Flyer, either old Flyer or new Flyer will not be in the market to supply new buses for the next number of months?

MR. H. JONES: Well, I would assume, Mr. Manness, that very quickly there will be activity in terms of certainly the Canadian properties where we know there are a number of significant bids coming up, to get into that marketplace. As to whether the production and delivery will start before '87, that's a matter of conjecture.

MR. C. MANNESS: Could I ask the Minister whether he was aware and whether he countenanced the sale to Toronto in, I believe, February '86 of the number of units of buses, given that he was trying to wind down the company and I am sure at that time was trying to minimize losses? What would be the rationale for Flyer to enter into a new contract of that size, given that each one of those units represented a loss and given the fact that the government was actually trying to sell the corporation?

HON. E. KOSTYRA: The rationale behind the decision of the board which was concurred with by the government, was to facilitate the divestiture process. There were negotiations or discussions taking place at that time, and it was a feeling that we had to keep Flyer for the near future as a viable operating company in order to conclude the sale successfully.

MR. C. MANNESS: Mr. Chairman, I refer to a paragraph in the Sales Agreement, 4.03.

HON. E. KOSTYRA: Sorry, what was the number?

MR. C. MANNESS: 4.03. I don't quite understand the import of that particular clause. It says words to the effect, if Flyer makes money, this debt — and they're talking about the amount of Flyer debt of $1 that will be sold to the purchaser — if Flyer makes money this debt can be paid and purchaser will likely receive favourable tax treatment — those are my words, they're not the contract's words, they're my words — and I'm wondering basically what is the meaning with respect to that particular clause within the contract?

MR. H. JONES: But you've touched on the principle, Mr. Manness, and that is to ensure that any potential benefit from the tax loss carried forward is preserved, and that the transfer of the debt into the new company — the balance sheet will show the debt — and going across with that $1 preserves access to that tax loss.

MR. C. MANNESS: What Mr. Jones was saying is the benefit of the tax loss will be maintained by MDC until new Flyer is an active going concern within the market, and is prepared then to buy back that favourable tax loss carry-forward?

MR. H. JONES: That transaction is effected immediately, Mr. Manness. I'm sorry, I can't find the clause now, I will in a few minutes. But in the Share Purchase Agreement MDC is obliged, within reason, to ensure that nothing takes place. The transactions that are taking place prior to and on closing don't jeopardize the potential access to the tax loss carry-forward.

But having said that, there are also protective clauses in the agreement which gives the Province of Manitoba certain rights should there be realization by the Den Oudsten Company of any portion of that tax loss carry-forward.

MR. C. MANNESS: I'm still a little uncertain, Mr. Chairman, as to who basically owns the tax loss carry-forward. Is it MDC or is it Den Oudsten?

MR. H. JONES: Because the shares are being purchased, Mr. Manness, it stays with the new company.

MR. C. MANNESS: But then if the new company proves successful, in consideration of that, they then will pay an additional amount or sum of money to MDC? And on what basis?

MR. H. JONES: Under certain conditions. If there are realizable benefits to Den Oudsten because of the tax loss carry-forward and the funds realized are not reinvested in the province, then the purchase price of $1 million will increase by 25 percent of that benefit.

MR. C. MANNESS: Of the benefit from the tax loss — and I believe there's a schedule somewhere within the contract showing the accumulation of those tax losses — maybe Mr. Jones can help me find it.

MR. H. JONES: It might be clearer, Mr. Chairman, if you would look at the report, Note No. 9.

MR. C. MANNESS: The Annual Report. I would then ask, Mr. Chairman, there is a total loss carry-forward of $43 million. Is Mr. Jones then saying, that if the new purchaser did well or if he decided to use this total loss carry-forward provision in an expansion outside of the province, that that company would then have to pay MDC 25 percent of the 43 million?

MR. H. JONES: Well, not the 43 million. Whatever they realized as a result of that tax loss, it wouldn't be 43 million. Whatever it was.

HON. E. KOSTYRA: You're taxed on the rate.

MR. H. JONES: But you're quite correct. Yes, outside the province, yes the price would go up by 25 percent of that benefit.

MR. C. MANNESS: Mr. Chairman, I don't have any more questions.

MR. D. SCOTT: Okay, first, there was one item that was raised earlier that I'd like to get some confirmation on and that is in regard to the liability the province is borrowing. On Page 17 of the note, it says: ". . . that an amount not to exceed 15 million this year and 15 million next year for 1988 and 1989," and this is to be insured.

Is there a liability beyond the insurance premium paid of $300,000 to the Province of Manitoba for that $30 million worth of guarantee for bonding purposes?

MR. H. JONES: That is the contribution Den Oudsten will make to the premium costs, Mr. Scott. MDC would have to pick up the balance of that premium cost. So yes, there is an exposure there. It's in the document.

But we have to be very clear, Mr. Scott, that the commitment is there of up to 15 in 1988, because 1988 is seen to be the year when entry into the U.S. market would take place, but it is fully insurable with the province having to pick up 50 percent of the premium.

MR. D. SCOTT: I'm not finished yet. I have a couple of other questions.

So the premium will be $300,000 by new Flyer and $300,000 by the Province of Manitoba, if the full amount was required on bonding?

MR. H. JONES: Thereabouts, yes.

MR. D. SCOTT: And the total amount for this, do we not have to provide this in our capital supply, that amount? That's included in the 65 million that's been approved?

MR. H. JONES: It's already there.

MR. D. SCOTT: Okay. One other item that I don't quite understand on Page 18, the bottom item; "MDC will transfer the indebtedness of Flyer to Den Oudsten for $1.00." I still didn't catch it. I'm sorry.

HON. E. KOSTYRA: Well that was just explained. Mr. Manness just asked the same question. Do you want to go through it again?

MR. D. SCOTT: I'll go back and read the notes on it.

Okay, this is I guess, just my final conclusion. I guess this goes through to the Minister as well. I don't want to take much time. I want to be able to finish it today.

But you spent three years or four years now and what we hope will be a successful conclusion of this, with finding a purchaser to divest Manitoba's interests in Flyer Industries, and successfully have found a firm that I think is a most responsible firm and will hopefully turn this into a viable enterprise to carry on for Manitoba.

If for some reason the deal was to fall through, earlier in the day you made a comment as to closure, if it wasn't sold, it would be closed. If the present deal falls through is that still the case? When would the doors close on Flyer Industries if the present arrangement fell through at the last minute?

HON. E. KOSTYRA: I can't give a specific response as to what day that would happen but the position of the government is that, if this divestiture is not successful, then direction will be given to wind down the operation. I don't know what specific date that would take place because we're not faced with that scenario at this time.

MR. D. SCOTT: Would it be possible given that we were in a position to wind down and the order was given to wind up the corporation, would it still be possible for the corporation itself to do the retrofits with a scaled-down staff, or resources? Or would you have to maybe subcontract it out or reach cash settlements with the people where the retrofit agreements are in place now?

HON. E. KOSTYRA: All those options would have to be considered based on the costs. One of the obvious difficulties if you are closing, or saying publicly close down a company, it's very difficult to keep it operating. People would want to leave, obviously, and try to find other employment. It would be very difficult, but they would have to be determined at that time which would be the best and the most prudent option to take in terms of the cost to the province.

MR. C. BIRT: There is a condition — and I'm referring to in clause 503 — that the vendor will guarantee up to $8 million to the purchaser. What is the $8 million for?

MR. H. JONES: It's the bank working capital facility, Mr. Birt.

MR. C. BIRT: It's on a reducing scale after two years to go down, I believe, to zero by 1991. But I can't find any condition in here that says that this money, the 8 million, has to be used on the Flyer plant in Manitoba.

MR. H. JONES: Well, in that one the MDC will use its standard commitment letter to the new Flyer and that will build in conditions that by providing the guarantee to the chartered bank, as we have done on umpteen other occasions, MDC would have certain rights in regard to security that the bank may take if it were to default. We would spell out the conditions of that working capital arrangement specifically for the enterprise in Manitoba, the Den Oudsten Company in Transcona. It would be a standard arrangement between MDC, the bank and Den Oudsten.

MR. C. BIRT: Thank you. Because there is no reference to any conditions and I was concerned that that 8 million may be used for other ventures in other parts of North America or even outside of North America.

My next question is, I take it that from the guarantee of the 8 million to the purchaser, Den Oudsten, they in turn then will advance some 2 million of that 8 million to Flyer as working capital, is that correct?

MR. H. JONES: That's correct.

MR. C. BIRT: Why then, is the additional 6 million or slightly less than 6 million required?

MR. H. JONES: The estimated access level to bank financing is based on a certain production level on a cash-flow projection and it's not at all unrealistic in our opinion, certainly not in Den Oudsten's opinion, that that kind of level of bank financing is required. It will be used if it's required. The estimate from the cash flow is it would seem to peak at that at certain times of the year.

MR. C. BIRT: If I understand it, then, there is going to be basically a line of credit of $8 million established and initially some 2 million will be advanced from Den Oudsten to Flyer but then they will draw on it as and when or if needed during the production stage of over some five years, I guess it is?

HON. E. KOSTYRA: Well the line of credit may be higher. The only portion that the government is guaranteeing is 8 million. In fact, indeed I think it is going to be. A business plan has it at a level higher at 10 million. We only guarantee the 8 million.

MR. C. BIRT: Thank you. That's all I have for now.

MR. F. JOHNSTON: The reference, on page 17 — I believe I have the right page — to the $30 million, the guarantees, is made that Den Oudsten will have premium costs to a maximum of $300,000 to cover the indemnity, and I think I'm in the right spot, that's 5.04 on page 22 of the contract. It may be elsewhere, but I haven't come across it. It doesn't specify, or seem to me to specify in the contract that Den Oudsten has to do that. Now, is that something that's going to be another agreement or another automatic contract or something of that nature?

HON. E. KOSTYRA: On the next page, the corporation that's referred to there is the new corporation, not the Manitoba Development Corporation. The corporation in the context of this agreement refers to the new corporation.

MR. C. BIRT: I note that the province must sign a guarantee and it's Schedule 22. Is this a normal type of guarantee that's signed when MDC is involved in financing the project?

MR. H. JONES: It's become a normal requirement in the last number of years when the MDC balance sheet itself is not exactly a healthy one. The covenance that MDC is entering into in their Share Purchase Agreement have to be backed by a guarantee from the province itself. It is an absolute requirement of the purchase.

MR. CHAIRMAN: Are there any further questions today?

Committee rise.

The next meeting will be Thursday morning at ten o'clock.

COMMITTEE ROSE AT: 12:30 p.m.