First Session — Thirty-Fourth Legislature

of the

Legislative Assembly of Manitoba

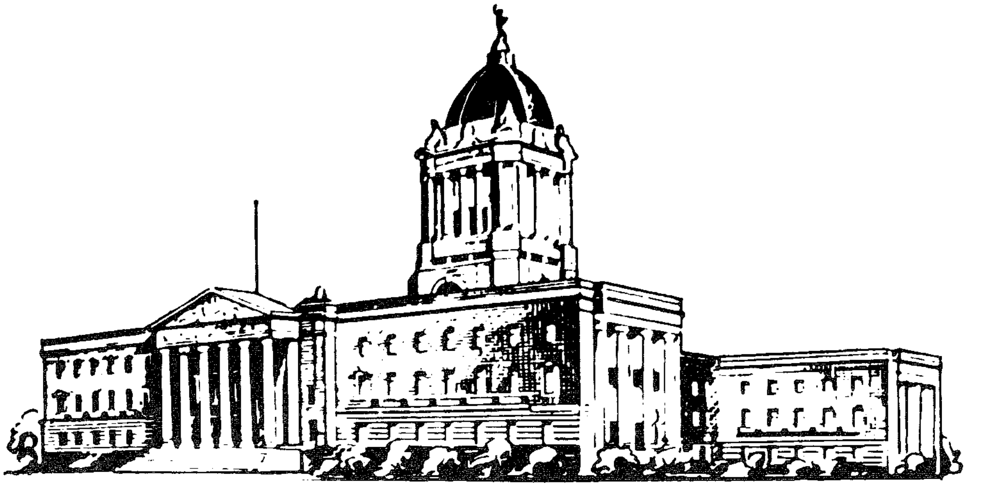
STANDING COMMITTEE

on

ECONOMIC DEVELOPMENT

37-38 Elizabeth II

Chairman
Mr. H. Pankratz
Constituency of La Verendrye



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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Fourth Legislature

Members, Constituencies and Political Affiliation

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LEGISLATIVE ASSEMBLY OF MANITOBA

THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Thursday, March 23, 1989

TIME — 10 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. Helmut Pankratz (La Verendrye)

ATTENDANCE - 11 — QUORUM - 6

Members of the Committee present:

Hon. Mr. Ernst

Mr. Angus, Mrs. Carstairs, Messrs. Cowan, Gilleshammer, Harper, Helwer, Minenko, Pankratz, Taylor

APPEARING: Mr. Paul Demare, President and Chief Executive Officer

Hon. C. Manness, Minister of Finance

Mr. Mike Bessey, Executive Council

Mr. K. Lamoureux

Mr. H. Harapiak

Mr. James Bruce, Vice-President, Mergers and Accounting, Pemberton Securities

Mr. Duncan Jessiman, Barrister, Pitblado and Hoskin

Mr. J. R. Harmer, President, Stothert Management Ltd.

MATTERS UNDER DISCUSSION:

The Annual Report for Manfor Ltd., fiscal year ending December 31, 1987.

* * * *

Mr. Chairman: I would like to call the committee on Economic Development to order at this point. We have a resignation to deal with.

"I wish to resign from Economic Development Committee, effective March 23, Jerry Storie, Flin Flon." Do we have anybody who would like to be nominated to be replaced?

Mr. Elijah Harper (Rupertsland): Yes, I nominate Jay Cowan.

Mr. Chairman: Mr. Cowan has been nominated. All in favour? (Agreed)

Now I would like to ask the Minister in charge to make his opening comments at this time.

* (1005)

Hon. Jim Ernst (Minister responsible for Manitoba Forestry Resources Limited): If the Members of committee agree, what I would like to do is proceed with any further questions with respect to the annual report bringing it to a point where it can be passed. At that point, I then would invite the Minister of Finance (Mr. Manness) and his consultants here to make a presentation of about 40 minutes or so detailing the aspects of the divestiture of Manfor, following which he and the consultants also would be available to answer questions of the committee. Do we have general agreement then amongst the Members of the committee that would be a prudent course to follow?

Mr. Kevin Lamoureux (Inkster): Mr. Chairperson, maybe then I can ask the Minister, if we were to agree to something of that nature, then would it be safe to assume that the presentation and questions regarding the sale and divestiture of Manfor—if necessary, we can go on to an indefinite time later on this afternoon.

Mr. Ernst: I am not sure whether we can go on for an indefinite time today. We may wish to have some further meetings of the committee if there are further questions or time has been used up and all questions have not been answered.

Mr. John Angus (St. Norbert): In order of expediency, I would certainly assent to what the Minister has suggested, however, with the forever privilege of coming back to ask questions on the annual report before it is passed as a result of information that comes out from the divestiture introduction. I think that is only reasonable. So we can agree that the two-year-old report is sound and that the questions are there and move right up to that point of not passing it, but there may in fact be some questions that arise as a result of the divestiture in relation to the reports that are on the table.

Mr. Ernst: Presumably, Mr. Chairman, those questions would be asked during the divestiture comment process. If that is in general agreement, Mr. Chairman, then at the last meeting of the committee the Member for Wolseley (Mr. Taylor) had requested a certain engineering report with respect to a spill of Bunker "C" oil at the Manfor site. I am prepared to table today the report along with a letter from Manfor which indicates the process through which they are going to resolve the situation.

* (1010)

Mr. Chairman: Okay, Mr. Minister, we are going to have these reports delivered to all Members of the committee now.

At this time, I would ask committee Members, so that they have an opportunity to question the Minister, does anybody have any questions in regard to the '87 annual report?

Mr. Angus: At the conclusion of the meetings, I asked for a very brief report on the new marketing strategy the mill had taken at tremendous capital expense to address new markets, how successful that program had been and the overall direction that the corporation had taken. Mr. Minister, you will remember that question.

Mr. Ernst: I do remember at the closing of the last meeting the Member for St. Norbert (Mr. Angus) did raise certain questions with regard to marketing strategies. Can the Member for St. Norbert clarify the question of this major capital expense that created a new marketing strategy, exactly what is it he is referring to?

Mr. Angus: That is fair. Mr. Chairperson, through you to the Minister or to Mr. Demare, the mill had a downswing approximately three years ago, and I am going from memory. At that time, they were changing equipment, bringing in and taking new strategies in terms of the product to address a North American market. They were producing a high-quality kraft paper, Mr. Minister, if you were not aware of that. They were one of the very few mills in North America that was doing that. It was done before your time and in the former administration at great expense. I was led to believe that was one of the reasons why there was a loss during that particular year, and it was to address new opportunities. It apparently had worked successfully.

The relevance of the question, Mr. Chairperson, through you to the Minister, is the fact that the new owners have indicated they are going to be changing the course and not following that particular course. I wondered from the current administration how successful that turnaround apparently had been.

Mr. Paul Demare (President and CEO of Manfor): I would have to say it was quite successful. They converted from a commodity grade of unbleached kraft paper to a specialty grade of extensible paper. It is, I think, acknowledged to be the best unbleached kraft paper sheet in North America at this time.

Mr. Angus: The product was well received in the marketplace, and the estimates of revenues and sales from the product were favourable. Is this a fair assessment, Mr. Demare?

Mr. Demare: That is affirmative.

Mr. Angus: If I remember accurately, it was suggested by your colleague at the last meeting that the corporation did three-year plans, five-year plans, things of that nature. Have you estimated a turnaround in the Manfor operation? What I am trying to get to, Mr. Chairperson, through you to the existing administration, is, was success on the horizon? Was a turnaround in this corporation on the horizon, as evident by the two years of profitability, if you like, after writing off the debt, I appreciate?

* (1015)

Mr. Ernst: I suppose you have to ask yourself, what is profitability. The taxpayers in Manitoba have $250 million of investment in the plant. So presumably if you produced a profit of $25 million, you really produced a break-even point. Nowhere in the projections of the company have we ever anticipated coming anywhere close to that. The profit of $3 million in this particular financial statement, about $800,000 of that profit is in fact the sale of a fixed asset, an apartment building, a one-time revenue source to the company. As well, there was I think about $1 million of interest income associated with this profit. Where we had $1 million of interest income in this financial statement two years previously, the company was in fact paying $4 million or so of interest costs on debt so that if you have no debt and you put one-time profits into the statement, it can make it look considerably better than it is.

However, the fact of the matter is that the company is producing a modest cash flow surplus, if you will, but nowhere near what would be required. Do not forget that the pulp and paper industry is in a cyclical nature, and I happen to have a little diagram here—I only have one copy, unfortunately—which indicates the kind of cycle that we are in in terms of pulp and paper products.

In 1988, it started to down slide. Now it is much slower of course and it may not dip as low as it has in the past, and there are a whole variety of things. But the fact of the matter is that the diversity, in 1987, it was reaching the peak of the cycle. Reaching the peak of the cycle produced an operating profit, if you will, somewhere in the area of $1 million. In terms of profitability, you will have to gauge for yourself how profitable is profitable.

Mr. Angus: A final question, Mr. Chairperson, then we can get on with the presentation that we are all here to see. Mr. Demare, do you believe that the corporation was on the verge of turning around and, because of the unique market niche that you had carved out, that you were going to be able to build a successful and profitable corporation over the next several years?

Mr. Demare: I am afraid I would only be speculating.

An Honourable Member: Coward. A lack of confidence in your abilities, Paul, unlike you.

Mr. Chairman: Any more questions in regard to the '87 report? If not, is it the will of the committee then to pass this report or to go to the—

Mr. Ernst: Mr. Chairman, the technical requirement is that if we pass the report the committee has no further reason to sit. In order to handle the technicality of dealing with respect to the divestiture, and in fact the Finance Minister (Mr. Manness) and the consultants are here to discuss that, I would suggest that by general agreement of the committee we will now move to that divestiture comment. When that has been exhausted, we will then pass the report.

Mr. Chairman: Is that the will of the committee? Agreed. Very good.

Hon. Clayton Manness (Minister of Finance): Members of the committee, Mr. Chairman, thank you for the opportunity to report to Members of the Legislature with respect to the agreement involving the divestiture of Manfor. Let me say from the beginning I apologize for events on Tuesday. Again, I say to you I was unaware as to what commitments had been made.

* (1020)

Mr. Chairman, Members of the committee, I sit before you today and tell on behalf of the Province of Manitoba that the Government is delighted with the agreement that it has entered into with Repap Enterprises of Montreal. We indicated, the Premier (Mr. Filmon) indicated, indeed I did also when we made the announcement in The Pas roughly two weeks ago, our willingness to discuss major elements of this agreement in an open way. I indicated again that last week when we were considering Public Accounts and I come before you today with a number of members of the negotiating team ready and prepared to enter into discussion on the basic elements of the proposed agreement. I ask Members of the committee to recognize the fact that this deal to this point in time has not been consummated. It probably will not be for another 30 to 40 days. There are parts of it where commercial confidentiality will have to apply, yet we will present the major elements and indeed some of the finer details surrounding those elements today.

I would like to introduce the negotiation team. There is basically a group of four, and five of us.

Mr. Angus: I just want to get the Chairman's attention, so that I can ask a question. I would like to hear who the introductions are. I just want to get my name on the list, Mr. Chairperson.

Mr. Chairman: Carry on, Mr. Manness.

Mr. Manness: I will introduce the members of the negotiating team, Mr. Rob Harmer. Rob, would you stand, please? Rob is president of Stothert Management Incorporated, Vancouver. Stothert Management has had an involvement with Manfor since, I believe, 1970 in a consulting capacity. Mr. Jamie Bruce, vice-president, Mergers and Acquisitions, Pemberton Securities, also in Vancouver specializing in forest products in the forest products industry. I will also at this time introduce Duncan Jessiman Jr., our legal counsel, barrister and solicitor with Pitblado Hoskin, another firm whose association with Manfor goes back for many years. A member also towards the end, although not involved in the heavy negotiations but certainly a major resource person to Government through the negotiation, Norm Brandson with the Department of Environment and, sitting beside me, Mike Bessey, secretary to Cabinet, Policy Management Secretariat.

Members of the committee, we propose to make you a slide presentation of roughly 20 or 25 minutes, highlighting the basic elements of the sale. But first of all, I would like to enter into just a brief discussion on the process and indicate that the criteria that I have been asked to expand upon many times in the Legislature were those that for the most part we inherited from the former Government. They dealt with the maintenance and indeed the expansion of the work force in The Pas and the districts surrounding; also the optimization of the forest resource; thirdly, the maximization of investment that was directed towards making sure that we have developed a world-class facility that would ensure that the jobs in that area were being maintained; fourthly, that there was a renewed commitment to northern Manitobans with respect to the forest products industry; fifthly, that the environment would in no way suffer as a result, indeed that there would be an improvement given the present state; and sixthly, that the Government would be put at minimum risk. Those were the basic criteria that I would say we inherited. We expanded on them somewhat, that we chose to impose upon ourselves as we worked through the divestiture.

Through Stothert Management and indeed through some of our own connections, we beat the bushes looking for firms and companies that might be interested in purchasing Manfor under the set of criteria that we had set in place. We brought forward a number of proposals, we imposed upon ourselves a period of sale, given the cycle of the industry, and Mr. Ernst just referred to that, and we reviewed all the offers and ultimately selected Repap Enterprises of Montreal. In our view, this is a tremendous opportunity for the Province of Manitoba.

* (1025)

It represents the largest industrial development in the history of this province. It represents a renewed commitment to the basic resources of northern Manitoba, a renewed commitment to the people of northern Manitoba and a new renewed commitment to the environment of this province.

This is a good deal by all accounts. Industry throughout Canada feels that Manitoba has struck a good agreement. Indeed, I asked for some unsolicited— I should say I solicited some views from an individual from Vancouver, the centre in many respects of the forest products industry, and the word on the street there was that Manitoba had done exceedingly well, that it was a perfect fit as between Repap and the province.

Manitobans are happy. If any Members of the committee had been in attendance in The Pas and Swan River two weekends ago when the announcement was made, they would have seen first-hand evidence of that, mainly because the uncertainty from year to year as to what would happen with the facility in The Pas has been removed.

The Opposition to date, in my view, has brought forward some good points for discussion. We have considered all of them in our discussions leading to the sale, to our negotiations. We come here today to expand our remarks around those points. I guess, my final plea to Members of the Opposition is the recognition that this deal is not yet consummated, that what we need is, after we have had an opportunity to present the elements of the sale to you, your encouragement to go forward and complete the agreement. Hopefully, we can gain your confidence and you will give us that encouragement.

I believe that northern Manitobans and Manitobans in general need this new opportunity. Thank you very much, Mr. Chairman. With that, I am prepared to begin to lay out the basic elements of this sale.

Mr. Chairman: Any questions?

Mr. Angus: Perhaps, Mr. Chairperson, if I can, it has been our position and remains our position to divest ourselves of this corporation and we are prepared to work as cooperatively as possible with the Government to achieve a worthwhile end. That will be the gist of the hearings as to how well the Government has divested themselves and how well they have done that job. Some of those questions may approach the bounds of confidentiality. Unfortunately, we will have to ask those questions and you may in fact have to justify why you do not want to answer those questions. We do not know that yet.

But I do have one question that I would like a specific answer to, Mr. Minister, and that is, if the deal has not been consummated, why have you announced it, and does that not weaken your hand in terms of negotiating final arrangements on the final opportunity?

Mr. Manness: Repap Enterprises, a publicly traded company, and indeed anybody who would understand that were to be a shareholder of that company would demand to know the moment that parent company had entered into an agreement, a commitment to an agreement. So the Securities Exchange laws in this country demand that be made public. Indeed, if the company had not, of course somebody would have gone to jail. Hopefully, the reason is satisfactory to you.

Mr. Angus: I understand the legalities of the stockholders' benefits and I am thankful that they are there. Otherwise, we may not have had this opportunity to discuss this. The question remains as to how strong a commitment, a Letter of Intent and/or arrangement, have you made, and how bound are we monetarily into proceeding with this arrangement, and what sort of negotiating powers do we actually have?

Mr. Manness: This agreement, to this point, that I signed on behalf of the Province of Manitoba, goes far beyond a Memorandum of Understanding, far beyond a Memorandum of Intent. It is an agreement of sale and purchase.

* (1030)

Mr. Jay Cowan (Churchill): Just a couple of questions, No. 1, he certainly understands that when the Government is involved in the intricacies of negotiation that there are some items that cannot be discussed publicly. My question to you, Mr. Chairperson, does the committee then have the power to move into a committee in camera to discuss those items so that we can delve into a bit more depth in some areas than we would be able to with the public present?

Mr. Manness: Let me and let the group try and answer all the questions. I say to the Member that we are one signatory to the agreement. Obviously there is another partner to that and, in the sense that we are trying to come to an agreement with some commercial integrity, I would wish that we are able to present and satisfy all of the questions that are going to be asked here today. At this time, I will not make a commitment to go in camera. I think that would not be prudent, but I will make every effort to answer every question that is put forward.

Mr. Cowan: I appreciate the Minister's answer, but the question was directed to the Chairperson. I just want to know, if we do have power to do so, then I believe it is a decision of the committee, not a decision of the Minister. I would like to clarify that in the first instance, because that will in some way impact on the type of discussions we have here today. So, if I could have a ruling on that, that would be helpful.

While that is being reviewed, I can ask another question.

Mr. Chairman: Mr. Cowan, we will let the secretary check that out and we will get back to you a little later on to the committee as to your previous question. Did you have another question that you would like to ask the Minister?

Mr. Cowan: Just a couple more questions before we get into the presentation, again one understands that some of the need for confidentiality is time sensitive. In other words, the details must be kept confidential while involved in the process of negotiation but, after the negotiations have been completed, there is far less a requirement for confidentiality.

I would ask the Minister if he is prepared at this point in time to commit to making available to the committee, and through the committee to the general public, the full agreement and the working papers on the part of the Government which they utilized in the negotiations and in coming to an agreement.

Mr. Manness: This is an open Government. As I have indicated before, we will make every effort to make available the complete document, the complete agreement. Working papers can be defined in many different ways. I cannot see the wisdom of providing working papers. I do believe, because the province, the citizens of this province, should know the agreement that they have entered into, we will make every effort to provide the agreement once signed.

Mr. Cowan: I appreciate the Minister is committed to making every effort. Can he indicate to us at this point in time what he perceives as being a possible reason for not making the complete agreement available to us, because what we asked for was a commitment to do it, and what we have gotten is a commitment to make every effort? There is a subtle difference, but the nuance is important. Can he indicate to us why it would be that he could possibly foresee not being able to make that complete agreement available to the public?

Mr. Manness: Mr. Chairman, no problem from my point of view, but again there is another signatory to the agreement. In the sense that there might be some very sensitive commercial aspects, I want to make sure that Repap Enterprises is in full agreement. At this point in time, it has not been a major issue. I have indicated to them my wanting to make it public, but there are still some areas that we have to work towards and indeed that is one of the items that we talk about during this period of closing.

Mr. Cowan: There is again a difference between wanting to and committing to. There are clauses that can be written into agreements, as a matter of fact in some instances must be written into agreements in order to ensure that those agreements will be made available to the public. That is done so that there is no possibility of one of the parties at a later date coming back and saying, well, you cannot make this agreement public because of corporate confidentiality and we never agreed to it in the first instance.

Will the Minister commit to putting such a clause in the agreement in negotiations over the next 40 days that will ensure that Repap understands this agreement will be made fully public and that they are committed to doing so?

Mr. Manness: Mr. Chairman, verbally I have indicated to Repap Enterprises that it is my intention to make this a public document. I have asked for a reaction from them. That is being negotiated right now. I anticipate absolutely no problem whatsoever from Repap's point of view in making it public, but I am saying at this time I do not have their final reaction.

Mr. Cowan: Well, we will be discussing that matter further then as we go on. But before going into the presentation, one more question with respect to the information that is available to us, the Minister indicates that what has been signed now, and he used the word "agreement" although it is not the final agreement, it is an interim agreement, goes well beyond a Letter of Intent and is really a committal on the part of both parties. We understand the legal requirements for the company to indicate that they have reached such an agreement and also the moral requirements of the Government to indicate that they have reached such an agreement at this point in time. Can the Minister make that interim agreement public?

Mr. Manness: I cannot. This is a share purchase agreement. It is, like I say, a share purchase subject only to closing, subject only to the development of some of the disclosure schedules that have yet to be worked on. So it is very much a sale purchase agreement, which I cannot make public at this time.

Mr. Cowan: Why is it that the Minister would not want to make it public at this time? Is there such information contained within it which he believes would damage the negotiations or betray corporate confidentiality on the part of the other party?

Mr. Manness: I think I have answered the question, Mr. Chairman. I think that there are still some minor—we are very much well along but there are some minor points of wording and some other points of disclosure, some other information that we are still waiting on that we have to present, that the other party has to present, that all have to be embodied in the agreement. I am in no position at this time to present that document.

Mr. Cowan: That is somewhat disappointing and I think it sets a bad tone for the continuation of discussions, but let us on good faith assume that we are not going to have that document available to us at this time. Is the Minister prepared to make that document available to us in its entirety as part of the package of documents that we will be requesting once the sale has been consummated?

Mr. Manness: Mr. Chairman, let me say very clearly that the interim agreement, sale and purchase agreement, referred to by Mr. Cowan is, in essence, the final agreement. There is no interim being separate and different from the final. We are well along. Again, let me indicate to Members of the committee and anybody else who wants to hear that this is almost unprecedented in terms of a commercial agreement being entered into and being discussed in such a completely open fashion before its closing. We are happy to do so but let not any optic or any appearance be given that this Government is trying to hide anything. It is trying to conduct commercial activities in terms of commercial norms and standards.

Mr. Cowan: The Minister has just indicated that the interim agreement is in almost all aspects of the final agreement. I do not think I am misconstruing what he said and he agrees. That then leads me to the question of what sort of input he expects from this particular committee.

Will changes be available? Will changes be able to be made, excuse me, if in fact there are good suggestions that flow from this committee, or are we so far along the path now that we are not going to be able to make those changes and all this committee is really going to end up being—or at least all the Minister is expecting of this committee is a cheering section for the agreement which is not what I believe to be our purpose. If in fact it is almost already a final agreement, what input is the Minister expecting from this committee?

Mr. Manness: Mr. Chairman, we are put in place to govern. The Government is put in a position that it has responsibility to make Executive Council decisions on behalf of the people of this province. The Government cannot work unless it has that mandate. We have chosen to exercise that mandate in certain fashions. We are reporting to this committee. We are laying elements of the sell-out, basic elements.

Believe me, if there is some weakness, if there is some way of improving those at this time, we certainly have an opportunity to try and include them but, nevertheless, the responsibility for this transaction is the Government's. We will take the responsibility on the good side as of course we will take the responsibility if there are any negative downsides to it. That is the basis behind democracy and executive Government and council, as I understand it.

* (1040)

Mr. Cowan: Now that we have moved into the realm of the philosophical discussion with respect to the role of the MLAs, I just want to make the point that we are elected to question and we are elected to provide suggestions and constructive criticism and we are elected to try to change the Government's mind where we believe a decision has been made that is not in the best interest of the province, and we will do that. So we see the role of the committee as more than just rubber-stamping or cheering for a decision which has been made by the executive, and I think I speak for all Members of the Opposition when I say we will attempt to utilize the committee in that very positive, constructive fashion.

An Honourable Member: Let us get to it.

Mr. Chairman: Okay, is the committee ready to see the presentation? Agreed.

Mr. Manness: Ladies and gentlemen, I will try and move through it quickly. I have about 12 slides to show you. First of all, the agenda will give you some indication as to what particular areas we will be looking at.

Mr. Chairman: Minister of Finance, if I may ask you, would you please take your mike?

Mr. Manness: This is going to be a little difficult. Is there a—I cannot walk around with one of these. Can you hear me? Great. Firstly, the agenda and what it is we hope to review for you: the history of Manfor; the valuation that has been put on Manfor by various organizations; divestiture objectives, which I referred to in my opening statement; Repap overview; Repap agreement; the Province of Manitoba commitments; Repap's commitments; and the economic benefits to the province once this deal is consummated.

History of Manfor: the total provincial investment to this point in time, $307 million; in the last 10 years, $120 million; accumulated 10-year reported operating loss, $77 million; expenditures and capital over the last 10 years, $93 million; reported income in 1988, $1 million. I quote from the March '88 report of the Provincial Auditor: "The corporation will require substantial sums in the future for plant and equipment replacement to maintain its operations. At the present time, there is no reliable indication that the corporation's operations will ever be able to generate the funds required to replace the plant and machinery. To that end, some have said that Manfor maybe should continue in its present manner.

Under the new accounting system of Government, Crown corporation losses now are reflected on the bottom line. If there are losses in any of the Crowns outside of Hydro and Telephone, they are reflected in the budget and, therefore, become directly competitive with money that goes into hospitals and schools and highways.

Mr. Ernst was talking about downturn in the industry. He was not talking specifically about a product, he was talking about the industry. We put a sensitivity analysis to what would happen if we maintain Manfor and the product that they are producing there today dropped in value by $100 a tonne to $150 a tonne. This then would become the projected annual loss. That loss would be reflected in the budget of the Province of Manitoba.

Mr. Angus: Excuse me, Mr. Minister.

Mr. Manness: Yes.

Mr. Angus: Would it be possible for us to get copies of those slides or reproductions of those slides?

Mr. Manness: Certainly.

Mr. Angus: If you could circulate that, then we would not have to be making notes.

Mr. Manness: By all means, I just have the same thing.

Valuation, the Bowell Management Group, commissioned by the former Government, February '87, put a value of Manfor of negative $37 million. An internal Manfor evaluation done April '87 put the value at negative $24 million. Stothert Management in May '87 determined that the value was negative $19 million. Now people say, what do you mean, negative values? That means that if the company were to continue to operate knowing the state of the market, knowing the state of the industry and knowing the age of the plant and the requirement that certain events continue, including the running of the sawmill, that those amounts of money would have to be directed into Manfor on a yearly basis to make it break even, i.e., subsidized by Government. The final number was the book value number of $132 million. That is not the book value on the provinces books as the shareholder; that was the value ascribed to Manfor by their own company books as of December 31, '88. These are the divestiture objectives.

I mentioned them to you briefly in opening. They were in the area of employment. We insisted that the existing 850 jobs be maintained, indeed expanded; that there be new capital investment, because only through new capital investment could 850 jobs be guaranteed or some degree of guarantee be provided for those jobs; that there be a commitment to the communities, not only of The Pas but also to Swan River; that there be optimization of the forest resource, taking into account the very large area of the Manfor cut area existing, taking into account that the hardwood cut area to the south was becoming ripe, extremely mature, and was in some threat, coming into threat, I say, of being lost before it could be more fully utilized; and fifthly, the optimal realization value. Those were the basic overall criteria objectives and, of course, there were subsets to them, very important subsets.

At this time, I would like to tell you something about Repap. We are going to hand out their 1988 statements. I think they have just come to us. We do not have sufficient copies for all Members of the committee, but hopefully there will be enough to suffice. It is all we have, it is the total number we have.

* (1050)

The company, Repap, fully integrated pulp and paper manufacturer—could I ask if there could be some sharing, please? It is a Canadian-based public company, manufactures and markets coated paper, market pulp and lumber, the third-largest market pulp producer in Canada, with annual production of 670,000 tonnes of bleached softwood kraft pulp, the sixth-largest coated paper producer in the world with annual production of 600,000 tonnes, producing approximately 160 million board feet of lumber, has 3,600 employees and is located in Miramichi, New Brunswick, Prince Rupert and Terrace, British Columbia, and Kimberley, Wisconsin—an overview of the company.

This was the Repap offer. Total investment through two phases, and you will hear many references to Phase 1, Phase 2. I can tell you right now, the proposals that came in, we very heavily weighted them as to who was prepared to make the commitment of significant capital towards a new mill, i.e., Phase 2, in the shortest period of time: total investment, $1 billion; first phase, the immediate conversion of the existing mill to a bleached softwood kraft pulp mill; cost, $200 million for that conversion.

Phase 2: The building of a new world-class bleached softwood kraft mill starting in 1990 for completion in 1993. Total job creation, after Phase 2, the 850 people presently working, that number would become 1,200, but now in two sites, The Pas and Swan River; during construction, an average of 1,500 people during construction. We figured the construction will take roughly five years total, Phase 1 and Phase 2, 1,500 during that period of time.

I have referred to the Swan River facility, to build a major facility at Swan River because of now the inclusion of the southern wood resource. That would of course lead to finally the optimization of that wood.

Those are the basic elements of the agreement. Now we will go into the financial terms. Repap was prepared to purchase all of the shares of Manfor for $132 million, $42 million of that being cash, $90 million being Series B, Manitoba B preferred shares. Phase 1—and again before I move into the Phase 1—Phase 2, some of the heaviest negotiations took place because we fully understood that all companies were not only interested in the plant but were as much and maybe more so interested in the wood resource. They need fibre and of course that was the great attraction to the major proposals that came forward.

We said that we insisted before we would agree to any portion of that fibre being committed that there had to be a commitment of significant capital. So all of some of the more complicating structure that you may see coming forward is as a result of the benefits that the province was prepared to provide if Phase 2 came on quickly and all of the benefits that we are as a province prepared to withdraw very significantly if Phase 2 does not come forward. I will say at this time and I will say it many times, the biggest withdrawal mechanism to safeguard to the province if this investment comes here is the removal of the forest. Repap will not receive cutting rights if they do not go forward with expansion.

The financial considerations, at closing, we have struck a $132 million deal. Phase 1, Repap will complete a Phase 1 development project as follows: convert and expansion of the existing mill to 175,000-tonne annual bleached softwood kraft pulp mill; the cost of doing that, $200 million; the start, spring '89. Completion would be May-June 1990, by their account.

Phase 1 incentive, because we wanted to see this happen quickly, what the province is prepared to do in support of seeing Repap move quickly along Phase 1 is that with the $42 million of cash that we received at closing we will purchase $32 million of class MA shares. So in return for our $30 million investment, we get a $200 million investment in total.

Phase 2, and again almost all the time we had buyers, many buyers who were prepared to come and buy the mill existingly, in its existing form, were prepared to convert it to a bleached kraft mill but would not in any way guarantee expansion and, therefore, would not in any way guarantee the 850 jobs that were in place today. Like I said, we had many.

Phase 2, construction of a new 420,000 tonne per year bleached softwood kraft pulp mill, cost $800 million; start up, late 1990; completion, a full three years after that point, not maybe a full three years but not too short of it, I do not think.

Phase 2 incentives, to see this $800 million investment, the Province of Manitoba would guarantee up to $150 million of the project's first mortgage debt. I want to be very clear on this. The guarantee we put up is unlike any that any other province has ever put up. First of all, it will not be put up until we have strong confirmation that Phase 2 project is well along its course, that there is major commitment to investment. Only at that time does the guarantee come into place. The guarantee is not a changing of funds but not only that, if there is a call on that guarantee for whatever set of circumstances that may determine, the lender's call upon the guarantee, the province's money is not the first money out, unheard of with respect to provinces.

Our money will come out. If there is a call on the province to honour this commitment, it will come out on the same basis as any other lender. In other words, if the project does not go ahead, if the pulp industry goes into total rack and ruin and there is a shutdown and there is a $150 million loss, that $150 million is not the province's. The province's shares in that loss is a proportion relative to the total cost. So if we put up $150 million out of a $600-million project then we stand to lose one-quarter of our guarantee. The only way $150 million is lost is if, all of a sudden, a $1 billion investment, for some reason, is worth zero, absolutely zero the day after. Unheard of that in most cases the province's money is the first out, the first called upon. That is not the case in this deal.

* (1100)

Also as another incentive, Repap, going ahead with Phase 2 can purchase from the Province of Manitoba half of those MB shares, those original 90 million shares. They can purchase $45 million of them back for I million.- (Interjection)- I beg your pardon.

Mr. Angus: Could you say that again, Clayton?

Mr. Manness: Repap, to repeat? Mr. Chairman, Mr. Angus was wanting me to repeat that. We are saying that given that Phase 2 proceeds and that the province is sure that that major development is in place, we will allow the company to purchase back $45 million worth of Series B shares for the price of $1 million, a very good deal for the province.

I might say, with respect to the guarantee, it is going to cost to have our guarantee in effect. Even though there will be no draw on those funds, still the company, just to use the Province of Manitoba's strong and growing lending credibility, that they will pay for that right three-quarters-of-a-million dollars a year in cash to the province as long as that guarantee is in effect.

Provincial commitments, outside of the finances, Highways: The province will spend $90 million upgrading highways from Swan River to Thompson over seven years. The highways load limits will be increased to 62,500 kg's, 75,000 kg's in winter. From The Pas to Thompson, the program will be suspended if Phase 2 is not started in 1990. Let me indicate the reason that $90 million came about is because the former Government had commissioned a number of studies with respect to roads within that area and it was well known that if logging were to be continued in that area in any respect that this type of infusion was required into the highway network. That was well known and it was part of the UMA engineering proposal or research document. The range was between $90 million and $137 million in that document, and we chose the very lowest number.

Forestry: Repap will be granted a forest licence of about 3.3 million cubic metres. I will indicate again, this licence will be reduced to 1.2 million cubic metres if Phase 2 is not completed by the end of 1993.

If Repap does not move into Phase 2, it will not end up with Manfor's present cut. Manfor's present cut is around 2 point—it is 3.4. Manfor's present cut right now is 3.4. If Repap does not go ahead, that present 3.4 would be reduced to 1.2 million cubic metres.

I might say, if you want to talk about the area, Manfor's present cut area is about 105,000 square kilometres. We are granting to Repap through a different configuration 108,000, so the cut area as between Manfor's present cut and what is being granted to Repap is virtually similar.

I am going to ask Mike Bessey to come forward and go into some of the forest renewal areas.

Mr. Mike Bessey (Executive Council): We raise this because there was some question as to what the forest renewal charge would be and just what it is. The forest renewal charge is essentially a fund from which reforestation can take place and the province can monitor a cash flow to ensure that those cash payments are actually going to reforestation and not simply to build bush roads or other things as such. If you do look at any of the provincial comparisons, it can be pretty complicated because different provinces charge on different bases.

Ontario, for example, has a non-integrated wood area and an integrated wood area. The suggestion that Ontario has a $7 forest renewal charge is not exactly accurate. That is their stumpage charge. Ontario does not have a forest renewal charge. What happens is Ontario charges that rate of stumpage and then pays the companies to do the reforestation. What is happening is Ontario is taking in $15 million in stumpage a year and paying out $80 million a year in reforestation charges, so they are actually in a net deficit and the taxpayers of Ontario are paying for reforestation. For every dollar they receive in stumpage, they pay out $1.60 to reforest the province.

In essence, if you take their $7 stumpage, subtract their $1.60, which they are actually paying for reforestation through contracts with various companies, their more accurate stumpage rate or qualified stumpage rate would be $5.45—$5.40, sorry. What we are imposing here is exactly the same situation that is facing Abitibi and has been for several years now, is a forest renewal charge of $4.63. If you take our stumpage on softwood of 65 cents and 17 cents on the forest protection charge and add them to the $4.63, you are looking at $5.45. They are essentially the same thing. Prince Albert, for example, is about $2.38, about half.

That is not even that significant because the commitment that we have warranted here is 100 percent reforestation. Regardless of the number of trees that takes and regardless of the cost, the company has to pay that. They have to reforest that 100 percent and all this fund essentially is for us to make sure that there is a fund there and a cash flow actually going to that. Can I just finish that sentence? It is evaluated every five years so, if it is found that it is inadequate, it is simply boosted and, if it is too much, it can be lowered. But it is simply there so that we can monitor and make sure that reforestation is taking place.

Mr. Harry Harapiak (The Pas): Will the same rates apply to the hardwoods as to the softwoods?

Mr. Bessey: The hardwoods are at 31 cents per cubic metre, which is actually the same rates paid by Prince Albert, and the model adopted was the exact rates of Prince Albert which is the closest competition, but we added an extra 17 cents per cubic metre charge. So our stumpage is actually, though it is modelled on P.A.'s Weyerhaeuser divestiture, we are actually 17 cents per cubic metre higher. All this—

Mr. Manness: There have been some comments, and very legitimate, on the environment aspect. I just want to indicate to the committee that an awful lot of time was spent in discussing basic elements of this with Repap. Mike, if you are ready, I will let you move into those points.

Mr. Bessey: One of the reasons Repap satisfied the Government's criteria is because they are probably, in our view, the most progressive pulp and paper company in North America and, hence, probably the world in terms of environmental protection.

This technology, you have heard a little bit about it and we will read a little bit about it in our annual report, may revolutionize the pulp industry in that it removes the problems of emissions. In essence, it removes chlorine completely from the process and cooks the wood chips with alcohol instead. It is not at commercial stage yet. They have a commercial pilot project in New Brunswick, which they in fact a couple of weeks ago ran their first tests from. So they have run a couple of batches and it may be the pulping process of the future. They have invested hundreds of millions of dollars in it. We are excited by that approach and by that sort of consciousness that they brought to their approach, actually to expansion.

In terms of addressing the environment, there are several important points. One is that Manfor for years has been in non-compliance with our own environmental legislation, okay. Part of the divestiture process, obviously, is to rectify that situation and sort of start with a fresh start and get a clean mill, in essence, running.

* (1110)

The second point I would like to make is that the signing of a share purchase agreement and closing of a share purchase agreement does not constitute a development under The Environment Act. A development under The Environment Act is when the process is changed, thereby having a potential impact upon the environment. That development cannot take place until licensed. That licensing will not take place until The Environmental Act process has been followed, including assessment, public registry and hearings by the Canadian Environment Commission. Before there is any development in this project, that process will have followed its natural course.

In addition to that, The Environment Act provisions will apply both to the plant changes, the process conversion, Phase 1 and Phase 2, and the reforestation and forest operation and management plan.

In addition to that, the province will be revoking the exemption granted to the pulp industry in this province by way of Regulation 9688(R), and bring the pulp industry back under The Environment Act, because it has had an exclusion for the past several years. We are going to bring the entire industry back under the guidelines of The Environment Act in this province.

In terms of the engineering being built into Phase 1, several months ago, discussions as to the cost of Phase 1 were about $130 million. It is now $200 million. Part of the reason for that is that Repap is committing to the most progressive environmental engineering technology in the world on this project. That will include extended delignification, some of the things that have been talked about in public forums where concerns people expressed will be satisfied. It will include extended delignification, will include oxygen delignification, and it will include chlorine dioxide substitution for chlorine, which is a critical piece in the bleaching process.

The most current and oncoming mills in Canada and the world, the technology they just brought out in the last year or two regarding chlorine dioxide, can get a substitution factor of about 50 percent. Repap is engineering this plant, and we are warranting it in the licence and will provide for such in the licence of 70 percent substitution, chlorine dioxide for chlorine. That will make this plant the most environmentally sensitive in the world until someone finds a way to do better.

The engineering that is allowing them to do that is a system called high substitution dioxide generator. That process has not been perfected, has not been implemented by another company anywhere else yet, and that is what will be used on this site.

One of the reasons, apart from the other considerations that the Minister has talked about that made Repap preferred candidate in this case, is its strong commitment to the environment. They are a growth company and they are simply saying this is good for our bottom line, this is good for the future. That is the kind of company we are and that is the kind of company that we really wanted to do business with.

Mr. Manness: Thank you, Mike. No doubt there will be further questions on that aspect. You mentioned Swan River. We are just delighted that a component of this particular expansion involves a facility at Swan River, employing a number estimated at 250 people, the majority of which would be in the woodlands division, harvesting wood within the mountain area within the valley.

The sawmill—some people are interested to know what conditions we put on the sawmill. We did not demand that the sawmill continue. We certainly indicated it would be our preference that it do. We did not make it as a condition of sale, but Repap has indicated they will continue to operate the sawmill until Phase 2 is started, Phase 2 again starting in late 1990.

Employment—total employment will not fall below current levels and priority will be given firstly to people normally resident in The Pas and district and thereafter to people normally resident in Manitoba, bearing in mind the commitments that we have made to other provinces with respect to free trade of resources and people and also the fact that the Charter of Rights would not allow for an exclusion of non-Manitobans. Nevertheless, the company has given an undertaking to firstly give priority to people who are resident and who are presently working on site.

I should also mention with respect to—and there is some concern expressed and I can understand why, that individuals now working for the sawmill may not have an opportunity to move into a different facet of the wood industry. There will be a $20 million training fund established by the company but jointly administered, like Government and the company, to ensure that individuals presently working for the sawmill have the first opportunity to acquire the skills to move into the next phase of development.

Some have said that maybe the province has given away too much. I just wanted to indicate what is happening in the pulp and paper industry. Of course, Alberta has made a lot of noise lately with respect to the number of projects coming on stream there. I just review this to try and put in some perspective our commitment. Weldwood of Canada received a $200 million loan guarantee on a $360 million project; Millar Western Limited, 120 million participating debenture on 194 million project; Daishowa Canada, $65 million grant for a $500 million project; Alberta Newsprint, 200 million loan guarantee on a 360 million project; and this latest major Greenfield's operation in northeastern Alberta that Crestbrook were successful in obtaining a 75 million grant and 150 million subordinated loan for a $1.1 billion project. Again, I indicate this only to point out that our loan guarantee of $150 million on $1 billion project, conditional on so many different aspects, and again at a ranking level equivalent to the other debt.

The economic impact on the province during construction—and people may say, well how long will that be? I guess we put a five-year time frame to it, direct jobs during construction, 7,000; indirect jobs, 5,400, a spinoff; wages and salaries, $200 million, using an average income of $29,000, which I think is conservative; provincial income tax and indirect taxes to the province, the combination of the 15 million and 14 million, federal income tax, 22; and an increase in the Provincial Domestic Product of roughly $500 million or $100 million a year.

After the facility is built, Phase 1 and Phase 2, moving into general operations, we believe there will be 370 additional jobs, direct wages and salaries, $129 million. This is over a 10-year period at that average income, and there are the provincial and federal tax shares and an increase in the general economy of $300 million each year. I might say that this is not the end.

* (1120)

For those of you who have been in attendance at The Pas and Swan River on the Saturday the deal was announced, Mr. Pedde indicated his high desire, once this was in place, to bring forward yet paper machines that would have an investment price tag associated with them not too far distant from this total billion dollar investment.

Ladies and gentlemen, that is the presentation that we have on the basic elements of the sale.

Mr. Angus: Mr. Chairman, if it pleases the committee, I would propose we deal with this in sections in order to keep the discussion somewhat on course. I would propose further we discuss the financial merger, takeover aspects, so that the individuals who have the knowledge of that, Mr. Bruce and Mr. Harmer—if the committee hearings continue on to another time, they will not have to be brought back in from Vancouver to answer those types of questions. So if there are general questions of reforestation, perhaps they can be left for the department to answer later in the day.

If that is an agreement of the committee, Mr. Chairperson, I would like to begin with the financial aspects, if I may. We were advised by Mr. Demare the other day that there was a $14 million cash reserve surplus, if you like, in the corporation. I would just like to be apprised of whether or not at least the first phase of the investment—Repap has not bought this company with our own money. So I would like some assurances that the $30 million we have given them back in preferred shares and the acquisition of the company, that the $40 million they are paying us is again not our own money. Perhaps you can just address that.

Mr. James Bruce (Vice-President, Mergers and Accounting, Pemberton Securities): The agreement provides that the $32 million it made preferred shares that are purchased are only purchased on the condition that Phase 1 development goes ahead, that is that Repap spends approximately $200 million. There is further commitment that Repap will put $65 million equity into the business so there is no chance that they will not have any investment in the project.

Mr. Angus: Mr. Bruce, as I understand it, they have agreed to put $40 million down as the company?

Mr. Bruce: Yes.

Mr. Angus: We as a province have agreed to buy back in preferred shares $32 million and giving them $32 million back—

Mr. Bruce: Yes.

Mr. Angus: —and that, if the company has cash in reserves of $14 million, that they have in fact bought this, at least the down payment portion, with our own money. Is that an accurate assumption?

Mr. Bruce: That is a correct understanding of the transaction. However, they do not get the $32 million, that is to make it net.

Mr. Angus: Until they start the phase—

Mr. Bruce: Until they are committed to Phase 2, and there are all sorts of definitions of what that means - (Interjection)- Phase 1, sorry. Thank you.

Mrs. Sharon Carstairs (Leader of the Opposition): Well, I mean that sounds terrific, but I can say I am committed to Phase 1. What kind of proof do you have to have before they get the $32 million?

Mr. Bruce: There are a number of tests. There are, as I recall, commitments on orders of equipment with non-refundable deposits, committed financing arrangements for the balance of the costs of the project satisfactory to the province. Evidence to that nature will be provided when we purchase the $32 million in shares.

Mrs. Carstairs: Exactly what kinds of shares are we talking about here? We have got two types of shares, MA shares which are the $32 million, MB shares which will be the $90 million in Phase 2. What is the difference between the MA shares and the MB shares?

Mr. Bruce: The terms of the MA shares, they carry different dividend rates. They commence paying dividends on different dates. They have different retraction or repayment terms. The MA shares commence paying dividends in '92 once the facility is thought to be productive, you know, producing after the developments at a rate of 7 percent per annum. They commence in '92. They commence being retracted, that is the province starts getting repaid that money once the debt of the project is down to half and that would be half of only Phase 1, if they only did Phase 1, or half of Phase 1 and Phase 2 if they proceed with the Phase 2 project.

Mrs. Carstairs: If they have to put $65 million in equity in, are they not automatically down to one-half of the commitment?

Mr. Bruce: No, they are not. We expect they will have approximately, between the cost of closing the purchase and the development and the cash that is inside the company when they acquire it, debt in there of approximately $135 million for Phase 1, 135.

Mrs. Carstairs: Are we talking cumulative or non-cumulative dividends?

Mr. Bruce: Cumulative.

Mrs. Carstairs: And how many dividend payments are built in before foreclosure could potentially be instituted?

Mr. Bruce: These are preferred shares as such and do not provide for foreclosure terms. They are not a debt security.

Mrs. Carstairs: So there is no debt security whatsoever on the $32 million being invested by the provincial Government?

Mr. Bruce: Other than covenants, there is no security against the direct assets. By covenants, that is not to further encumber, and so on.

Mrs. Carstairs: The MB shares that we are going to go into at the Phase 2 stage, I assume that we have a different dividend rate and that is the reason for the different designation.

Mr. Bruce: Yes, that is correct.

Mr. Manness: I would like Mike Bessey to make a comment on that.

Mr. Bessey: I would like to just set the context first because, if we look at the MAs and MBs in isolation and some of the terms in fragmented sense, we miss the picture of why they are structured as they are structured. The main key point is the present value of what they come to. If you recall the valuation sheet which places a negative value on Manfor, it is on an ongoing concern basis, meaning that you have certain assets and liabilities and, on an ongoing concern basis, it requires an infusion of cash even to break even. You do not have, for example, the $10 million cash available unless you are willing to close the doors and hold the liquidation on a fire sale basis and put those people out of work. It is the only basis on which you have that cash available to you for whatever purposes, in addition to which you would be paying for severance, etc., so you would not have the cash.

We would argue that and did in fact that the value indeed, although placed at a negative value on an ongoing concern basis, has to be somewhat positive because there is a working capital, including cash, of about $40 million. You would never realize that $40 million even on liquidation because it is valued as an input into the pulp process so your pile of logs is out on that basis. If you liquidate, your pile of logs is not worth what you said they were in terms of inventory, so it is not quite 40 but it is somewhere between negative 37 and somewhere approaching 40.

We argued very strongly in fact, that argument notwithstanding, the real value of this thing is $40 million. Yes, you can argue it is slightly less, we do not hear that argument. It is about $40 million. We are willing to take that in cash, okay, which is what is done, but we are willing to take 10 of that cash up front and invest 30 for the $200 million investment. We are willing to structure those MAs and MBs at 7 percent and 5 percent, at dividends starting at certain dates, etc., so that the present value of those future stream of payments equals the $40 million. So, in essence, what we get is a $1 billion investment, plus the real value of this plant in today's terms at the end of the investment. If they do not do that investment, for example, we have that cash up front.

If for whatever reason Phase 2 did not happen, in fact that future stream of payments would be much greater than the actual value. It will be much greater than the 40, it will be actually about $70 million. It will be almost twice what this thing is worth. So there is a real hook in that sense, and that is why they are structured complex so that there is a hook for them to do that Phase 2 in addition to incentives. If they do not do it, then they are paying much more than this thing is really worth. That is obviously not something they justify very well, the shareholders. They are doing Phase 2 and that is the Government's key priority. That is why these terms are structured as they are.

There is one other point I wanted to make and I lost track of it. The other thing is that the 65—these are equity instruments as opposed to instruments, and the 65 is in addition to the 135 debt. We did sensitivities on any delay in those payments and, because they are cumulative, if the profit was not there for first year to second year, we would still accrue those payments.

In addition, we built in covenants that they cannot service their own equity until our equity is serviced. So they cannot take anything out unless we have been paid first, so we are trying to build those kinds of debt concerns into an equity instrument.

Mrs. Carstairs: With all due respect, we did not publish the fact that you had gotten $132 million for this deal. You did. What has to be determined now is just where this $132 million is. We were told it was $42 million in cash but, in essence, it is not $42 million in cash. It is some $42 million minus $32 million, which is $10 million for which there is cash already in Manfor. So the question is that in fact they have been given this company. We may justify their being given the money further on in these discussions, but they have been given money for no cash contribution.

Mr. Manness: Mr. Chairman, with due respect, the moment we signed that agreement, and a condition of signing is a cheque coming to the Province of Manitoba for $42 million, that is what we are selling the going concern for. After that, we begin then leading into Phase I, and our commitment to the conversion of the existing Phase 1 represents an investment of $30 million. At closing, we get $42 million for the facility.

Mrs. Carstairs: Are you saying, Mr. Minister, then that the $32 million purchase of MB shares will not take place until the completion of Phase 1?

Mr. Manness: No, I am saying it will not take place until the financing of Phase 1 has been guaranteed by Repap, then the securities are in place.

* (1130)

Mrs. Carstairs: So that—and we will use the figure and it may not be absolutely accurate—when you see the guarantee that they have in place, $200 million of financing to build Phase 1, you are then going to send them back a cheque for $32 million.

Mr. Manness: Correct.

Mrs. Carstairs: And what happens if in fact they do not put that $200 million into Phase 1?

Mr. Manness: There is no deal, but the province has their cheque for $42 million.

Mr. Bruce: They will be providing a completion guarantee at that time, as well as having provided us as evidence that their lenders providing the debt that they have put $65 million of equity into the project and so on.

Mr. Angus: I would just like to follow up on that for clarification. How much is the first phase again, the total investment of the first phase, $200 million, and how much is the actual cash security going to be negotiated for, the security on the notes and the financing going to be for? You suggested, Mr. Bruce, that you are going to be securing that investment through financial commitments. Those are my words not your words, and how much are they for? Are they for the complete $200 million?

Mr. Bruce: Yes, we have to be satisfied. The province has to be satisfied that Repap has lined up all of the financing necessary to complete Phase 1, that is the $200 million, before we proceed with the investment of $32 million. Then we try to define with them certain things that we would say would satisfy us, that is a commitment from a lender to provide them the amount of debt, their authorization to put in equity and so on like that.

Mr. Angus: Are there any securities provided for if the company does not proceed with that Phase 1? If they cannot arrange that financing, as the Minister (Mr. Manness) has suggested, we have their $42 million cheque, but they in turn have the company. Is that a reasonable assumption or does the deal fall through?

Mr. Bruce: I am sorry, you will have to rephrase. I apologize.

Mr. Angus: The Minister has indicated that we would be able to keep their $42 million cheque. We have already seen that the company has a cash operating surplus of $14 million, I think was the figure we were given, my figures again. Do they keep the company and does the deal fall through or do we keep the $42 million? They do not get the $30 million in shares and we just shake hands, or are there any security provisions for us to keep a down payment and get the company back?

Mr. Bruce: The agreement is structured so that we have a high degree of comfort at closing that they have the financing in place. I think without having it in front of me, we are highly comfortable that at closing Phase 1 will be done. That is, we will have seen lenders' commitments. They will have committed money, they will have given us our $42 million, we will probably be purchasing the $32 million back. Yes, there are I0 million in the company. Their commitment for $65 million of financing in—and that includes purchase of Phase 1. They will have $65 million of their money in the transaction. We will have $32 million in. We will have taken back 90 as part of the purchase price as a nominal statistic. They are all interrelated. The purchase and the proceeding with Phase 1 are highly interrelated transactions. I would think that if Repap decided not to proceed with Phase 1 they would not close the purchase the way that the agreement is structured.

Mr. Manness: Mr. Chairman, I just want to reiterate what Mr. Bruce has said, that those periods of closing and receiving payment, and purchasing shares to Phase 1 is in a very narrow time frame, but they are all separate and distinct.

Mr. Angus: Just a final question and then I will turn it back to Mrs. Carstairs. The $150 million first mortgage debt was in Phase 2. That has nothing to do with Phase 1.

Mr. Bruce: Correct.

Mr. Angus: Okay, thank you.

Mrs. Carstairs: Can the Minister or his representative give us some information as to the debt equity ratio protection for the preferred shareholder?

Mr. Bruce: There is a debt equity covenant in the agreement. I am only going by recollection but -(Interjection)- a debt equity ratio of two to one maximum throughout the life.

Mrs. Carstairs: Can the Minister and the representative give us the financial tests that will be used on the preferreds, or are there no financial tests?

Mr. Bruce: I do not understand your question.

Mrs. Carstairs: If you are establishing preferred shareholders and you have a debt equity ratio and you have cumulative shares, which you have indicated, there has to be some protection for the preferred shareholders in terms of tests which are applied to indicate how secure those preferreds are. What have been the tests that have been put in place?

Mr. Bruce: The principal test is the debt equity ratio and that the dividends are current, that the redemptions are current. If they should fall outside of any of those provisions, they are prevented from taking any funds out of the company on a return of their own equity or for management or other things like that.

Mr. Chairman: Any more questions?

Mr. Angus: Well, if you insist. Actually there are questions and I can only assume that the Government has done a good job in securing the interests of Manitobans. They certainly are asking the questions along the right lines, as far as I am concerned, for the securities. I am concerned, Mr. Bruce, as to how your organization in the course of one month would value a corporation the size of Manfor at $5 million negative, or plus or minus less than your predecessor the month before had done it? How do you arrive at the devalued value?

Mr. Manness: Mr. Chairman, I am wondering if there is some confusion here. We never asked Pemberton, Houston, Willoughby to do an evaluation of the company. We had asked—

Mr. Bruce: There might be, Mr. Minister. I am sorry but—

Mr. Manness: The former Government had approached Stothert Management to do an evaluation, one amongst many.

Mr. Angus: Is Stothert not represented here?

Mr. Manness: Yes.

Mr. Angus: Perhaps then I should not be asking Mr. Bruce that question and I should be asking Stothert.

Mr. Rob Harmer (President, Stothert Management): Essentially the differences in evaluation reflect perceptions of the future. Our evaluation is based upon a 20-year forecast of future prices of sack kraft paper and operating costs. We would make assumptions concerning inflation rates. I have reviewed the Bowell Management evaluation. I was personally involved in calculating the Stothert Management present value calculation. They essentially reflect different perceptions of what will happen with the sack kraft price in future and different assumptions concerning inflation.

Mr. Angus: I appreciate that you have different methods and are looking at different crystal balls to try and gauge these things. Were you asked, at any time, to value the company for resale and, if you were, were you able to peg a value?

Mr. Harmer: That was the purpose of the valuation.

Mr. Angus: The results were that it should be sold for—we should give somebody $25 million to take it away?

Mr. Harmer: I am sorry, I perhaps did not make myself perfectly clear. The valuation we did was the operations of Manfor on an ongoing basis. We did not provide a valuation of what the Manfor asset could be sold, because that really is a reflection of what occurs in the marketplace.

* (1140)

Mr. Angus: I have no further questions for Mr. Harmer. I would like some clarification from the Minister. Correct me if I am wrong, and again these are my terms. I do not have that package you were going to photostat for us yet, so I am going by memory as best I can. If Phase 2 commenced, you were going to be selling back a block of shares at a reduced value. Could you just explain that portion again and then the rationale?

Mr. Manness: Mr. Angus heard correctly. We did it for two reasons. First of all, in the stream of cash flows, we structured those back so they would again present to the Government $44 million, or $40 million to $44 million present value, the whole deal. Secondly, as a show of good faith and commitment to this major investment, that the Government was willing to forego half of their B shares, so one incentive to still keeping the present value in the area of $40 million to $45 million.

Mr. Angus: This conditional grant is based upon how broad a commitment or how deep a commitment into Phase 2?

Mr. Manness: It certainly is not a grant. We put out no money. As a matter of fact, we realize the value $132 million only if it continues to grow as a going concern. Per your questions to Mr. Harmer, as you can realize, there is not $132 million worth of value there. So as part of the deal we have taken paper Class B shares, which are not a grant, but says that we have some equity. We will only grant forgiveness or the redemption of half of those shares upon commencement of Phase 2.

If Phase 2 does not go ahead, all of a sudden that paper Class B shares that we received take on much greater value, because then the company has to begin to redeem on them and pay dividends on them, accumulating. So that paper really only takes major value if indeed the company does not proceed with Phase 2. Again, as Mr. Bessey has indicated, this is one of the hooks that we have put in to ensure that the company maintains its word and its best intentions to move forward.

Mr. Angus: Thank you, Mr. Minister. The term "grant" I recognize as an obnoxious one to the business mentality you have, but perhaps the agreed reduced rate of redemption or reselling of the shares is a more appropriate term. My understanding is that it is securely tied, and I was just curious as to what sort of an agreement you have come to, to ensure—the whole objective, Mr. Chairman, through you to the Minister, is to get them to do Phase 2, and you are dangling a carrot for Phase 2, and I applaud that form. But if it does not, how do we ensure that it works?

Mr. Manness: Mr. Chairman, Mr. Angus is right to where we spent countless, not hours, not days, but weeks and months in that whole area, and I say to him that we could not put a gun to the company's head to absolutely ensure Phase 2. What we did was build in a number of commitments that we were prepared to make if they went ahead with Phase 2 and, on the other side, a number of legitimate costs to them if they did not go ahead, including all our commitments I talked about: the $150 million guarantee; the continuing expansion of the roads. Thirdly, the forgiving of half of the Preferred B shares would only occur after we were satisfied and could be shown proof that all the engineering was done; two, that the financing was secure, the financing—no part of our guarantee comes forward until we could absolutely see where the financing for that $800 million is guaranteed. Thirdly, that there is a recovery boiler, or some other major portion of machinery that has been ordered, and that there is a non-refundable payment made by the company in support of that ordering of major equipment. Only at that time would we be prepared to honour some of our commitments to Phase 2.

If Phase 2 does not go forward, then the company by the covenants in the agreement has then to provide certain things to the province. The wood is taken back. They lose virtually two-thirds of the wood area. Secondly, there is no guarantee; thirdly, accelerated payments, I believe, on the A's and the B's right across the board, accelerated payments such that the present value no longer is $40 million but the present value jumps up to $67 million; fourthly, no forgiveness of course on the B shares. That is what we have tried to structure throughout to ensure that Phase 2 took place.

Mr. Angus: I appreciate what Mr. Manness is saying and I can lighten the load a little bit. I think that they are on the right course and I recognize the dealing in major takeovers of this nature are difficult, at the best of times but, in monopoly, even when you end up with all of the properties and all of the money, you have nothing and, if you have a company that is not worth very much, I am wondering what securities we have in relation to Repap divesting itself from the pulp and paper forest products in The Pas from its parent company. Are the securities and are the agreements and are the share values in the Repap organization, or is this a private and separate corporation that is being set up for the purpose of establishing shares?

Mr. Manness: What we have is the basic right—there are no transfers. It is ownership, unless it has our endorsement. The province has the final say, the right of veto, as to ultimately how the assets associated with Manfor are moved around in the corporate chain. The province has given itself veto signed by way of the contract. If this is not followed, we have the right to be paid off in dividends and indeed our share.

Mr. Angus: Paid off in Repap dividends and Repap shares in the parent corporation or in a separate corporation that has been established in Manitoba with its own individual title and share sections?

Mr. Manness: Mr. Chairman, the redemptions take place per my earlier comments, much more quickly causing a much greater present value.

Mr. Angus: Let me just back off from that and perhaps ask some other questions and I can perhaps collect my thoughts on it. I will ask the Minister and his staff to give some consideration to the fact that if an organization like Repap is allowed to buy a corporation like Manfor, break it off, make it a private and separate company, remove the assets, not fulfill its commitments, take the money away from it and then turn it back to you, you can accelerate the shares as much as you want. They do not have any value or, if they do not have any value—and I was concerned about the security that we have as Manitobans to prevent that type of a thing, taking, and I say that not with a slant in any disparaging remarks to Repap or any innuendos in relation to their credibility as a corporate citizen.

Mr. Manness: Mr. Chairman, I am going to ask Mr. Bruce to answer this. Let me say, there is nobody more mindful of the history of this particular operation and what has happened over the last two decades between myself and indeed all Members of the negotiating team. So those very concerns and every one of those potentialities was taken into account. Now, I will ask Mr. Bruce to indicate how it was that we structured the agreement to address your concern.

* (1150)

Mr. Bruce: The objective was to have it as if it were a, "stand alone Manitoba company" with no other Repap encumbrance. They have agreed to that, but they want the corporate flexibility of moving it around, subject to our approval and being satisfied that what you have described is not what the objective is. You can analyze and decide not to do it if you do not want to allow the transfer of the assets.

There is a provincial rate. They have to get the approval of the province to transfer assets. We do recognize they may want to, for whatever corporate reasons, move this around but they have undertaken not to encumber the assets. If they move them into another company, they would not follow under the security arrangements of the other company, and so on. They have become transferred assets. They may be a division but they will be kept as much like a stand alone company with the equity associated with the project that they have put in for debt equity tests, and so on. So it is a principle in the agreement. It becomes very complex when you start thinking of divisions, of an organization chart that is extremely complex and often very dynamic, changes for—

Mr. Angus: Mr. Bruce, you have suggested that it is going to be a "stand alone Manitoba corporation."

Mr. Bruce: No, I said it is like a "stand alone." The objective was to have it like a "stand alone Manitoba corporation."

Mr. Angus: How does it differ? The optimum word is "like," and perhaps we should get the lawyer to the table to give us an opinion of that. But what I am concerned about, Mr. Bruce, is that if the company is established in Manitoba, if the shares are all for a Manitoba corporation, if they end up having no value for whatever reason, what have we got? Do we have any recourse to the parent company?

Mr. Bruce: The structure of the agreement is to have recourse to the facilities, not to Repap. By negative pledges, that is in the form that they can encumber them beyond the first mortgage debts that are used to finance their construction, and so on.

Mr. Angus: The facilities being the capital investment of the facilities at The Pas. Is that accurate?

Mr. Bruce: The existing facilities, the Phase 1 development and the Phase 2 development.

Mr. Angus: So, if I can just try to put this into perspective, it is like a "stand alone Manitoba corporation." They have agreed to give us $42 million out of Repap's parent company's pocket. They are going to write you a cheque, I think are the words that you used. We in turn are going to get some agreements in writing that they are going to undertake some Phase 1 commitments. They in turn take over the whole of the plant, including the cash money that is in the bank. They then are able to establish the separate company.

We have all of these preferred shares that we have agreed to, non-voting preferred shares, I suspect, and I would suspect we do not have anybody on the board of directors at this Manitoba corporation. We do not have any players at the table to monitor or gauge any of their decisions. If, in fact, they do not, and the only security we have are the commitments to growth for The Pas that they are going to make, if it does not work out, if they decide not to proceed with it, there is no recourse back to the parent company of Repap, the $42 million you have suggested they have got, which has obviously been discounted by the 14 million or whatever cash is in the corporation right now. Is that an accurate appraisal of the situation right now? Without making any judgments, have I got the gist of it accurately?

Mr. Bruce: I think, save and except that there are covenants in there to prevent them from doing anything untoward. That is, they cannot encumber the assets. Further, they cannot transfer them to a dummy corporation without—we will have the right to refer. They might want to transfer them to a substantial corporation, a shell corporation, whatever. We are going to have to understand the reasons so the protection that the province has tried to build into the transaction are negative pledges, no more, just the debt that goes for construction of our productive facilities in The Pas and Swan River. There is that major commitment and a right to review it to make sure what you have described is not the intent of the reorganization. In other words, there will be reorganizations and you wind up—we have shares of a company and they are going to amalgamate or something and you wind up getting shares of others. We as shareholders have have the right to approve those things.

Mr. Angus: I appreciate the candor that Mr. Bruce has, the dialogue that he has entered into.

Mr. Manness: I would have to indicate to Mr. Angus that we really cannot go into an awful lot more detail on that. I see where you are leading and you are going to want to ask specific questions. I have to serve notice that we cannot go any further than this. We tried to lay out the basic covenants. We tried to lay out the safeguards and the basic principles of those safeguards. We are happy to do that. I am just sort of serving notice that we cannot go much beyond, much further.

Mr. Angus: I appreciate the delicacy of the issue and I appreciate that we begin to tread upon the thin ice of business ethics, negotiations and arrangements that are done in good faith. I will assure the Minister that we are all interested in making sure and ensuring that Manitobans have the absolute protection that they deserve for this corporation.

While the line of questioning may be sensitive, if the Minister would give me the courtesy of meeting with me in camera, and/or other Members of the committee who may be interested, to discuss these particular items, I would be pleased to pursue that issue because I believe, Mr. Chairperson, that it is incumbent upon the Government not only to satisfy all Manitobans in whatever method they take, but certainly to satisfy Members of the Legislative Assembly that this is in fact a good opportunity for Manitobans to negotiate a positive impact on the economy and particularly the economy in northern Manitoba.

Mr. Manness: Mr. Chairman, the questions as to what safeguards have been built into the agreement are fair. There is no argument there. Mr. Bruce has indicated that with respect to hiving off assets and moving shares around either to a substantial corporation or to a dummy corporation that there cannot be anything done, absolutely anything done, without our countenance. We have the final veto as to how the asset covered in a share form, the Manfor asset covered in some share form, is ultimately dealt with within the Repap empire. We have the final say.

Mr. Angus: I will ask two more questions and then collect my thoughts and see how I may be able to phrase questions so that we can get more specific answers without embarrassing anybody.

The one question that I have is, what are the assets? What are the capital assets of the corporation? This is a two-year-old report. It is the most recent report that I have. Can somebody tell me?

* (1200)

Mr. Manness: Mr. Chairman, I am prepared to provide a number, but I must tell the Member that what statement we have has not been audited.

Mr. Angus: I appreciate that.

Mr. Manness: It is not my responsibility to release it. There is another Minister who is in charge and that is the problem, I guess, we are in. So if you insist on wanting an evaluation, I am prepared to give you one globally but I cannot entertain specific questions beyond that.

Mr. Angus: Mr. Chairperson, with that proviso that it is a global figure, that you are not going to be held to it, I would appreciate having an approximate worth, if you like, an outline in whatever fashion you can give.

Mr. Manness: Mr. Chairman, as I showed on the slide, the book value on Manfor books was $132 million. As you know, the Province of Manitoba, the shareholder, we did not support that buy.

Mr. Angus: A final question, and again I would remind the Minister that I still have not got a copy—

An Honourable Member: Well, they are right—

Mr. Angus: Okay, I am sorry.

Mr. Chairman: That information, I will ask the committee Clerk whether she could distribute them to the Members in the committee.

Mr. Angus: Thanks very much. The final question and then I will turn it back to Mrs. Carstairs, the question simply put is, why do we not have a player at the table in the Province of Manitoba?

An Honourable Member: What table?

Mr. Angus: Well, the board table of the Repap corporation that is going to be guiding and governing the activities of the Repap division of the Manitoba "stand alone like" company, like stand alone company.

An Honourable Member: Why? Do you want to be on the board of directors?

Mr. Bruce: Bite it.

Mr. Angus: Mr. Chairperson, without putting Mr. Bruce on the hot seat, it is not uncommon in corporate mergers and/or takeovers for individuals who are becoming trading partners to ask for and to request opportunities to sit at the board of the governing body in order to: a) protect their assets and their investment, to secure the direction they have got; and b) out of respect that they have individual players who know the history, know the development and know the direction from whence it has come. So it is not uncommon and I wondered whether or not you were instructed not to or—

Mr. Bruce: There was no instruction not to. It was recognized that Repap is a public Canadian corporation and has a finite number of directors, has facilities at various locations, has done—and virtually in all cases acquired the assets from vendors, and none of their previous vendors from the three other major locations are represented on the board. It is clearly your right.

There is a clear concern as a seller that you have got all of these conditions and covenants. How can you make sure that the corporation is, and we have tried to build into the agreement as a principle, and I will not go into detail, basis of monitoring to making sure, you know, receiving reports and so on, that they are adhering to things.

An Honourable Member: I am sorry, I did not get that.

Mr. Manness: Well, to build on one point that Mr. Bruce has just indicated, and it will become clearer at closing, is that we still have by way of covenant in the agreement, an opportunity to go in and look at certain aspects of Repap's dealings specifically dealing with Manfor in an audited sense.

Mrs. Carstairs: I just want to return to something earlier because I may have missed the answer. I just want some clarification. I went out to do some testing myself in terms of it.

We were talking about the preferred shares and the tests on those preferred shares, the debt equity ratio which is two to one and the payment of a 7 percent dividend on MA type shares and a 5 percent dividend on MB shares. I asked a question with regard to the rights of foreclosure and perhaps I should have said the right to seize the assets as opposed to the right to foreclose. But it has been quite normal that if a dividend is not paid eight times that indeed the preferred shareholder does have the right to seize the assets. Has that been built into this agreement?

Mr. Bruce: No, it has not, but I am not certain it is common for preferred shares to have the right to seize assets. It would be a major precedent, I think. They are share capital of the corporation, not debt of the corporation.

Mrs. Carstairs: Share capital in the corporation but, if there is no capital in the corporation, they have nothing. Therefore, there have to be some protections for preferred shareholders. In the cases of cumulative payment of shares, certainly there are a number of corporations who do have that eight-payment test.

Mr. Bruce: I do not know how to try and answer that other than by example from previous experience on preferred shares in corporations that have gotten into financial trouble. I mean, it is getting way off course in my view, but there are well-chronicled companies: Daon Corporation, Dome Petroleum and so on, and the preferred shareholders' really only had a nuisance value that company could not continue in existence if they reorganized. In our case—

An Honourable Member: A nuisance value.

Mr. Manness: We said $40 million, present value. Did you not hear us?

Mr. Bruce: In this instance, we have gone beyond that to have negative pledges. That is, the company if it gets into the glue, it is only on debt that we know was in there. Secondly, there are incentives for this to keep us current, but they cannot take anything out of the company. They cannot, you know—they get into a very difficult position having to come to us virtually to do anything with the company. But no, the shares are not secured against the assets of the facility. They are secured by not allowing any other, indirectly in jargon, negative pledge. That is, there is no other pledge.

Mr. Manness: Mr. Chairman, I am wondering if it would be acceptable to Mrs. Carstairs that Mr. Jessiman come forward and give a specific legal response to the question.

Mr. Duncan Jessiman (Barrister, Pitblado and Hoskin): I would like to explain the situation of the preferred shares. As indicated earlier, we have tried to establish the investment on a basis whereby we have isolated the Manitoba assets on the basis whereby there is equity in the assets from Repap and, in the first phase, that is $65 million. There is $135 million worth of debt and then there is the preferred shares, the MAs and the MBs.

If the debt holders have a right under the terms of their indentures to realize on their security and sell the assets, then they would be paid first. If the company is wound up, then the preferred shareholders would then participate and after that the common shareholders would participate and that is the basis of the security. But there is no specific security on the assets in a preferred share. They just rank ahead of the equity, common equity shareholders.

Mrs. Carstairs: What, and if you had the worst case scenario, okay—

Mr. Jessiman: Yes.

Mrs. Carstairs: —what happens if there are no dividends paid on the preferred shares?

Mr. Jessiman: They would be cumulative. There are no provisions to force their payment. We cannot take over the company. They would have to default under their debt and the company would have to be wound up in order to realize.

Mrs. Carstairs: But provided that they maintain their debt equity ratio—

Mr. Jessiman: Right.

Mrs. Carstairs: —which is two to one, that they still do not make payments to the preferred shareholders.

Mr. Jessiman: They have made a covenant to pay the dividend. I mean, if they do not, they meet the liquidity tests under The Corporations Act. If they do not do that, then we have the right to go after them at law, because they have covenanted in issuing the shares that they will pay the dividend. The only reason that they could not pay the dividends is they do not meet the liquidity test under The Corporations Act and, in the structuring, we have even built in security for that the way it is structured.

If they try to move assets around, we have tried to ensure that if the Manitoba assets produce income that would be available for dividends, that the Manitoba Government would be entitled to it through their dividends, through their preferred shares.

Mr. Chairman: Any more questions?

Mrs. Carstairs: Oh, lots of questions.

* (1210)

Mr. Angus: In fairness, we will turn it over to the other Members of the committee to ask questions on finance. I am sure they have legitimate questions as well, and we do have individuals in from out of town and, with respect, I would like to deal with any actions that they might contribute to and then let them leave. So I do not want the Third Opposition Party (sic) to be able to say, well, look, bring those guys back from Vancouver.

Mr. Cowan: Just a couple of questions then and there are other areas of the deal that we wish to discuss in more detail, but we think that the financial aspects have gotten a fair hearing for today. That is not to suggest that there may not be reason to wish to pursue that later on in the discussion in the review of this particular set of negotiations. So by asking questions today, we are trying to accommodate the intent of the Opposition Party, with respect, to not bringing people back but we do not relinquish the right to do so if that is required.

Just on another issue that I do not believe has been mentioned, and please correct me if it was while I was out of the room, and that is with respect to the use of Manfor's accumulated deficit by Repap over the years with respect to income tax, and I would ask the Minister if he can indicate if any calculations have been done in that regard to determine the value of that part of the deal to Repap and, because that will affect both provincial and federal Treasuries, the cost to the federal Treasury and the provincial Treasury.

Mr. Manness: Mr. Chairman, I will let Mr. Bessey answer this in fairer detail. Let me say, this was an area that some discussion was spent on during negotiations. Let me also indicate there is no part of the agreement that indicates the province will warrant or prepare to warrant any potential ruling or lack thereof in Ottawa with respect to national revenue. We hope the company may be successful in arguing its case in Ottawa, but there will be no dollars lost to the Province of Manitoba if indeed these loss carry forwards develop some value. Mike Bessey, please.

Mr. Bessey: The context in which this occurs is by virtue of the fact that Manfor has lost money over last decades, say. There may be tax benefits associated with those losses, as is normal. Manitoba, however, as a Crown corporation could never take advantage of those tax losses. We have lost the money, we are out of it. There may be tax benefits available, but they are not available to us, period. They may not even be available to any private sector purchaser because of restructuring that took place in 1983 and some other factors. So they may or not be there and we refuse to warrant anything to that effect.

If they are there, if there is some tax benefit there, we cannot access it. No other private sector purchaser can access it unless it has profitable ventures somewhere else with which it applies these tax benefits to. What we have done—you then have two choices. You say, you find a way to prevent anyone from even utilizing tax benefits. You say, we cannot use them, we do not want anyone else to use them and you burn the value of those tax benefits in an incinerator, in effect, and it is an inefficient use of capital resources.

What we have done is to covenant, to the extent that there is any tax benefit that can be accrued, we are forcing them to take profits they have elsewhere into the country, if they apply them to these tax benefits, and sink it back into this project in Phase 2 to make sure Phase 2 happens. So even though we can never use those benefits and they can only use them perhaps if they are there by virtue of the fact they have profits elsewhere, we are forcing them to apply them back into this project to make this project more viable and stronger, and then make Phase 2 happen quicker.

Mr. Cowan: Maybe Mr. Bessey can be more explicit and provide a bit more detail as exactly how we are going to force them to pay back those tax benefits.

Mr. Bessey: It is the equivalent value. So if they have sheltered their profit they have made elsewhere, and a profitable venture to the tune of $20 million, we expect $20 million back into this project immediately to make this project stronger.

Mr. Cowan: But would not that be money that would be flowing back to the project in any event. If it was not, that money would be, the covenants that were discussed earlier would take effect with respect to Phase 2. I am building on the point that Mr. Bessey said, that they will be forced to utilize those in Phase 2.

Mr. Bessey: If not in Phase 2, because Phase 2 has not happened, then on top of their 65 million in equity in Phase 1 or to pay us off, okay. It is not the same thing, and in some way it would be there anyway because the money "would be there anyway" might be debt, as opposed to making this project more financially viable. So what we are doing is saying, if you can receive any benefit from this—and we have to recognize that they can only receive a benefit by virtue that they have performed elsewhere and so on. In some effects, we are controlling their own use of their own capital resource. We are saying, if you do enjoy any benefit that it comes back into this project to make this project financially stronger, not as debt but as equity or to pay us off.

Mr. Cowan: What are the possible valuations of that benefit to Repap?

Mr. Manness: Mr. Chairman, I almost hesitate to answer this question because it is purely in the realm of speculation. I think, when we were negotiating with Repap and indeed others, the bottom is obviously zero and, in the top side, I think we allowed ourselves the pleasure of saying 50 or 60. Well, there was even a time when 100 million was used, but I do not think we ever allowed ourselves to get carried away with that number. You know, it is just purely in the realm of speculation.

Mr. Cowan: So there could be, at the very outside, $100 million, but more than likely in the realm of $50 million to $60 million of tax benefits that would accrue to Repap as a result of this deal. Is that the case?

Mr. Manness: Mr. Chairman, I refuse to even give comment as to what might . . . . We would not spend any time trying to quantify it at all because it is not our decision. We have nothing to do with the decision whether or not it is acceptable to this federal Government as a loss carry forward. What we did say is if it has any value whatsoever, if you, Repap, are successful in being able to realize some value from it, then that will have to come back in to the Manitoba project in form of your equity on top of what is here, to shore up—and Mrs. Carstairs talked about the debt equity ratio of two to one again to improve that so to give the whole project greater stability.

Mr. Cowan: So, if I understand it correctly, it may not result in any further economic activity. It may not result in any further work, but what it may result in is a stronger corporation. Is that the case?

Mr. Bessey: It may. It can also be used to purchase more assets here, for example, to proceed with the paper machine.

Mr. Cowan: But it does not have to be used for that purpose. It may, in fact, just be an internal bookkeeping, although of some significance, with respect to the corporation sinking it back into the operation here so as to increase the financial stability of the corporation, which is not a bad thing, but would not result in more jobs, would not result in more economic activity other than what is already anticipated under the agreement. Is that correct?

Mr. Manness: Mr. Chairman, it is certainly more than a bookkeeping entry. What it is, it will provide a greater stability and a greater certainty of the jobs that are now in place and those ones that are to be added to it. It provides the province with a greater degree of comfort. Remember whenever there is debt involved, we do not have the same comfort as if there were no debt involved. So to the extent that there is lesser debt involved, greater equity, the province feels more comfortable and, indeed, the jobs that are in place are more secure.

Mr. Cowan: I know that feeling personally. I can certainly empathize. However, I do want to make the point, and I do not want to misconstrue or misstate or even misinterpret, even inadvertantly, what has been said, but it is my understanding, which is somewhat contrary to what I first understood being said by Mr. Bessey, that in fact the tax loss carry forward may, as the Minister said, make the operation more financially certain and provide financial stability. But it may, in fact, not result in one additional job, one additional purchase, one additional economic activity.

* (1220)

Mr. Manness: Mr. Chairman, it is all a matter of timing. Were it to happen all today, my comments are right. Mr. Bessey is right if indeed the judgment does not come down until three or four years from now, and Mr. Pedde is so impressed with the Manitoba environment, so impressed with the Conservative Government that will be in place at that time, that he decides he would like to infuse another $800 million in support of paper machines. I think he might want to direct that $20 million, however much saving, towards greater equity associated with that yet next phase of this great denouncement.

Mr. Cowan: I am certain Mr. Pedde is impressed with the deal he has gotten to date, so one would anticipate that he could be impressed in the future. But what the Minister is telling me, as I read through his words, is that it is entirely Mr. Pedde's decision.

Mr. Manness: False. Mr. Pedde's decision whether he is going to put paper machines here or not. The fact, if there is a benefit derived from those loss carry forwards, they will come to Manitoba. That was our decision as we entered into the agreement.

Mr. Cowan: I just want to go back to what Mr. Bessey said then. I wrote it down because I thought it was at the time important to note. He said that there is, in his words, a covenant that if there are tax benefits they will be forced to sink back into Phase 2 of the operation.

The implication there was that they would be forced to sink back into some expansion of the operation. But what I am being told now by the Minister is that may in fact be what actually occurs. That would be Mr. Pedde's decision but there is nothing in the agreement that forces them to do that. They can sink it right back into their debt equity position in the company. In other words, they can use it to make themselves more stable financially without adding to the jobs or without adding to the purchase of equipment. That would be their choice.

Mr. Manness: Mr. Chairman, it is not their choice. It is the choice of the Government of Manitoba as to where those benefits are directed. You can bet that the Province of Manitoba will want them directed back to the Province of Manitoba. You can bet that if they come forward before Phase 2 is on the ground, they will want to be directed towards the shoring up and the stability associated with Phase 2. If they come in after Phase 2 is built and operating, then it is up to Mr. Pedde to decide how he wants them to come into the province. But they will come into the province, for the last time.

Mr. Cowan: We understand that they will come into the province. But how they come into the province and how they are utilized once they are in the province is somewhat at question. I am hearing two different things. Perhaps the Minister can clarify. He says that it is up to the Province of Manitoba, the Government of Manitoba, to determine where those benefits are directed. Is he saying that they can then tell Repap that they cannot use those benefits to shore up their financial position but actually have to undertake projects which will increase employment or undertake projects which will add to the operating equipment in the plant?

Mr. Manness: Mr. Chairman, the first priority is that they would come to Phase 2 to shore up the debt equity ratio.

Mr. Cowan: I think we are probably going to need some discussion on that over a period of time. It may have to actually wait until we see the contract, but I am certainly not satisfied from what we have been told today that we have very much leverage other than to ensure that the money is reinvested back into the operation in Manitoba without regard as to exactly how it is reinvested. That is something that we will want to discuss a bit later.

I would ask the Minister though on the same subject, with respect to the tax ruling, he said earlier, and correct me if I am wrong, that the tax ruling will not have a cost to Manitoba. Is that the case?

Mr. Manness: Mr. Chairman, that is correct.

Mr. Cowan: But it will have a cost to Manitoba taxpayers as taxpayers who rely upon the financial Treasury to finance certain operations. In other words, federal dollars are provincial dollars in that sense. Is that not the case?

Mr. Manness: Mr. Chairman, I find it passing strange that Mr. Cowan is now concerned about the taxpayers of the Province of Manitoba, given the information that I put up on the chart as to the cumulative losses over the last number of years directly borne by the taxpayers of this province. I have indicated before that it has no direct impact on the taxpayers of the Province of Manitoba. I would be prepared to hear his indication as to how he saw it having an indirect cost to the taxpayers of the Province of Manitoba and, at that time, I will respond to his claim.

Mr. Cowan: Just before going into that, I would ask the Chairperson as to the intent of the committee. Are we prepared to sit past 12:30 p.m.? Has that been determined?

Mr. Chairman: Members of the committee, I thought I would pose that question to the committee Members. What is the wish? I might as well address that right at this point in time.

Mr. Harold Taylor (Wolseley): I have a motion related to that very subject if I might just read it out and see if there was any similar feeling among the Members of the committee.

I move that the Economic Development Committee be called upon to sit again by April 7, 1989, to deal with Manfor or before the sale of Manfor is concluded with Repap, whichever comes sooner. In addition, it is requested that Hansard transcripts be prepared on an as-soon-as-possible basis and available prior to the next meeting of the committee.

Mr. Angus: Mr. Chairperson, to the motion, if I may, the short answer to your question is that we are prepared to sit here and do our best to exhaust the financial questions as long as the Minister and the administration are prepared to answer them. If we feel that there may be future questions, as the Honourable Member for Churchill (Mr. Cowan) has suggested, and the finance people have to come back, then so be it, and that may result as we dig deeper into this.

However, if what we are really trying to get to, Mr. Chairperson, is that, if it is for logic and practical reasons the will of the committee to adjourn, we would like to reconvene the committee at the earliest opportunity after the Hansard transcripts have been prepared and before the sale is finally locked in stone, only for the purpose of being able to ask penetrating questions that will improve the negotiating position of the province to get the best deal for the people of Manitoba.

Mr. Manness: Certainly there are major issues and elements of this agreement which have not been discussed. I though would like to, if at all possible, spend some extra time on the financial matters, indeed as you indicated yourself, to allow Mr. Bruce, in particular, to—

Mr. Angus: To get on to his next takeover.

* (1230)

Mr. Manness: —be free. I know he has a commitment to leave Winnipeg around two o'clock this afternoon. You know, if I sensed that we could pretty well handle most of the financial matters and yet fully prepare to discuss them but not with the condition that we can keep discussing them up till the date of the sale. I mean, there are major elements that have not been discussed at all. I think we should direct some attention to them and I would hope that would be the focus of the next sitting. I am seeking some advice as to whether or not we can handle the financial matters over the next half hour, three-quarters of an hour and then move on to another sitting, at which time we will discuss some of the other elements.

Mr. Angus: Mr. Chairperson, I appreciate the Minister's concerns. I am sure he recognizes and appreciates the fact that we have only had now two or three hours to ask some penetrating questions. I think that he will agree that the questions have been reasonable, that they are not of the sky is falling nature. They are in the best interests of consumating a good deal on behalf of the people of Manitoba. I have already given him the commitment and I will continue to give him the commitment that we will do our best to ask financially related questions today in time for Mr. Bruce to catch his plane and leave the city of Winnipeg.

But, with respect, if the Hansard transcripts and/or if as we review the input leads to more financial questions, surely there is somebody within the Province of Manitoba who would be able to answer those financial implication questions. Surely, with all due respect to Mr. Bruce, we do not have to run off to Vancouver to get an expert in here to explain the financial circumstances and/or the commitments. So, with that proviso, I am prepared to try and wrap up his portion of it. If there is anything that you want him to say to us before he leaves, we would be more than willing to hear it.

Mr. Manness: All of a sudden, the tone is taking on a little different proportion. We will sit at this time and review financial matters. The next sitting of the committee, we will be prepared to consider other financial matters but bearing in mind that we may not go into near the depth that we have today on some of these areas.

Bearing in mind also, Mr. Chairman, that I do not know what is the wish of Members opposite but, if they want us to sit for many, many hearings, with respect to the divestiture, that in itself is going to present some problems, because there is no way that we can spend, during this point in time in the month of April when we are working towards the final closing, having our resources which should be at that table going through, very clearly, all the aspects, many of which have been discussed here today. We cannot have them there and also here. I guess I am seeking some indication from Members of the committee as to how many more times they may wish to sit. Certainly there is good reason to sit again.

Mr. Angus: Mr. Chairperson, with respect to the Minister, by his own admission, he has spent aggravating hours, days and weeks, on individual sections putting this package together and, with respect, I do not think that it is untoward for legitimate members of the Opposition to ask reasonable questions over a period of time for however long it takes.

Now having said that, I understand that you have got key players playing two games at one time. I would respect that we are going to need a minimum of one more meeting on a large portion of the financial aspects. But then we want to get into the reforestation policies, the environmental concerns and all of the other concerns that go with this particular package. I certainly hope that without standing in the way of the sale that you are not attempting to invoke some form of closure to solve this problem. If you had come on Thursday and given us an awful lot of the information, we would have been probably half-way done.

Mr. Manness: Well, it shows you how confused the Member is. This is Thursday and I am here. But let me say that Members of this committee are summoned here to consider the annual report, albeit a year-and-a-half late, the Annual Report of Manfor.

Mr. Chairman, what we are doing today is totally unprecedented, where the Government of the Day is entering into an open dialogue with Members of the

Opposition, covering basic elements of a sale, and we are happy to do so. But, Mr. Chairman, if what I read in Mr. Angus' comments is a threat that indeed if we are not prepared to sit for however long it takes to review an area which is outside of the reason that the Members of the committee have been called here in the first place and that he will evoke upon us, to use my words, a call that we are trying to hide and not bargaining in good faith if we do not succumb to his desire to provide unlimited sittings of this committee for the purposes of looking at the divestiture, Mr. Chairman, then we have a problem. Because after the closing, after we go into the closing, certainly Members of the Opposition will have the full rights, as Members of the Opposition, to see that document and at that time pose those very same questions. So I am asking just for some common sense to prevail and some indication of how much the Opposition is going to stretch our willingness to be open and yet at a very vulnerable time of negotiation.

Mr. Angus: Thank you, Mr. Chairperson, I respect the "unprecedented nature" of the efforts the Government is putting forward. I had assumed perhaps that notwithstanding precedent it was the right thing to do and so, therefore, it was a normal occurrence, but obviously that is not the case. I appreciate the opportunity to be able to ask questions before the deal is done and hope that we can offer some suggestions, not in an adversarial fashion but in a cooperative fashion to get the best package we can for Manitobans.

I would suggest that the House Leaders could solve this and resolve this problem in terms of negotiating a time and a place, but I would not think that we would need much more then one, at the most two, more sittings to answer the questions in the sort of blocks that we have. That is the best indication of area of asking questions that I can give at this particular time because I just have no way of knowing how long the hearings will last in relation to the environmental protection and/or to the different areas such as the Swan River, the roads, the highways and where the money is coming from these things. We just do not have any answers to those questions.

Mr. Manness: Mr. Chairman, those are all legitimate questions. I only say to the Member, please put in the balance his wanting and right to know in terms of where we are in the deal relative to it being completed, and I say to him that he has much greater rights to know and understand what is in the deal after it has been completed then maybe he does, and indeed all Members of the committee do right now because, if what they are saying is that they can make it a better deal the more we spend time collectively going over it, then I guess he is really saying that he should have been part of the negotiating team.

Mr. Angus: Yes, I would have volunteered.

Mr. Manness: Because that, ultimately, is where you go. That is ultimately where the argument goes. You are saying that, if you could collectively, if we could improve a lot of the part if we discuss it enough and often enough, ultimately, I think Mr. Angus wishes then that he had been part of the negotiating team. I do not blame him.

* (1240)

Mr. Angus: If that is an indication to walk across the floor, I do not accept at this stage, thank you.

Mr. Cowan: My question is to Mr. Angus to clarify what he means, "at this stage," by the words "at this stage."

Mr. Angus: But anyway, I am sorry.

Mr. Chairman: Mr. Angus, have you any comments?

Mr. Angus: No.

Mr. Cowan: We do have a motion on the floor and I would like to speak to the motion because I am not certain that the timing is one that is the most appropriate. But I think the first matter has to be dealt with, which is more important than when are we next going to meet, is really can we effect discipline upon ourselves to ensure that we can cover this in two full meetings following this meeting. I believe that we certainly can if the meetings are timely and if the answers are forthcoming and if there is the opportunity to obtain the type of detail that is required. As the Minister knows, one cannot, without having gone through the meetings themselves, commit themselves to just two meetings but I could suggest that we would use our best efforts to complete the deliberations within a set of two meetings and I think that would be a responsible approach.

Now we say that, assuming that we get to the same sort of standard mix that we have on questions and answers in the past in that there not be one group that is dominating it, whether it be the Third Party, the Official Opposition or the Government or staff, I think that is our first question. I would suggest that we commit ourselves to endeavour our best endeavours to complete the deliberations within two full meetings of this committee over the next little while and then we determine when that little while should be, and I ask the Minister if that is acceptable to him.

Mr. Manness: Certainly, two meetings are acceptable to me. I say to you and the Members without knowing everybody's time schedules but knowing that I know I have a commitment to Public Accounts Committee, knowing that it is a very hectic time of year, taking all those things into account, by all means let us attempt to have another two sittings of this committee dealing with the divestiture, bearing in mind that the best of plans sometimes cannot come into being.

Mr. Chairman: Mr. Cowan, in respect to the motion.

Mr. Cowan: Having determined that, let me indicate that the New Democratic Party Opposition would certainly be prepared to forego Public Accounts for this committee meeting so that we could take the meeting that was scheduled next week for Public Accounts and use it for the meeting of this committee, if the other Members agree. That would put us at a meeting next week.

I am not certain as to the exact date of that meeting, but—okay, so that would put us back here at the 28th and then—that is a good point, I will come to that. Then we would have the—if we could not do it before the 13th, we would also have the 13th as a spare. I am relying upon the Opposition Whip for that information. Would that be acceptable then?

Mr. Manness: Mr. Chairman, I am just—the 28th is acceptable to myself and Mr. Harmer, who I want to be here to answer questions if any of them centre around road limits and matters of that nature.

I should indicate that I am hoping still that the focus of that meeting will not be on the financial side. I hope we will move into other areas. I cannot make a commitment for Members of the Government who are on this committee because until, you know, they have had an opportunity to—

An Honourable Member: It appears that you are here by yourself.

Mr. Cowan: Actually if the Members of the Government who are on the committee were here it might be a bit easier, but we have grown accustomed, almost to the point where we enjoy their absence which did not need too much provocation on our part to reach that state.

However, let us assume that we will meet on the 28th and that we will meet on or before the 13th with the second meeting which should tidy us up on the basis that we will have meetings of this duration or if it requires to carry over a bit further on that day, a reasonable amount such as we are doing today in order to tidy up a certain section, committee would be prepared to entertain that flexibility.

If that is the case—

Mr. Manness: Mr. Chairman, can we have a longer meeting on Tuesday? Why do we not start at nine o'clock in the morning? Why do we not go till 1:30 p.m. I mean that is quite a goal. If there is a willingness to do that, let us make those changes to the provisions in the rules right now for that one sitting.

Mr. Cowan: Why do we not then, because the committee does have the power to set the time and date of its next meeting, and the Chairperson has the power to do it with the concurrence of the committee—well, Beauchesne at least provides him with that power. Let us assume that Beauchesne is right in this particular instance. Before we go on to that—

Mr. Chairman: Mr. Cowan, I would like to just mention to you that I believe the precedent has been set that the House Leader basically always sets the time for the meetings.

Mr. Cowan: I think you will find if you go back that the committee itself has from time to time determined when its next meeting will be but, notwithstanding the point, we have already determined that our next meeting will be the 28th and so it is a moot point at this particular time.

With respect to the flexibility, let us meet at, say, nine o'clock and then if we go to 1:30 p.m., if we go to 12:30 p.m., fine. If we can finish up in that day, fine; if not, we know it may take another day. There is certainly no difficulty with that.

Two other questions then, the Hansard, Mr. Bessey of course will remember that we were able to provide very short turnaround times on Hansards in the past and we would expect the same sort of accommodation from the Government of the Day with respect to perhaps having the Hansard available within a day or two so that we can review it before the meeting, well before the meeting on the 28th.- (Interjection)- Friday and Monday are holidays so, if we could have it in a couple minutes, it would be great. If not, certainly if we could have it tomorrow some time then someone could probably come in and pick it up. So that is my first question.

Mr. Chairman: I would like to ask guidance here in this respect from the Clerk. Mr. Cowan, it has been indicated to me that as soon as possible and in a draft form, possibly by tomorrow. Does that answer your question? Can we get back to the resolution that is before us?

Mr. Cowan: This is all part of the motion that I am trying to define because it does make a difference with respect to the motion as to when we meet. If it is not tomorrow, could we at least be assured that it will be delivered if nothing more than slid under the door of the caucuses by Saturday so that someone can come in on Saturday and start to review it. Mr. Manness and Mr. Bessey of course will remember how valuable that is to Opposition in trying to perform a constructive role. So if we could have that sort of commitment, I think that would be more than enough at this time.

Mr. Chairman: The committee Clerk assured me that all haste would be dealt with.

Mr. Taylor: I would, with the leave of the committee, like to amend the motion in the following way: I move that this committee recommend to the Government House Leader that the Economic Development Committee be called to sit again at 9 a.m., March 28, 1989, to deal with Manfor. In addition it is requested that Hansard transcripts be prepared on an as-soon-as-possible basis.

Mr. Chairman: Mr. Taylor, can you forward that motion to the Clerk, please? Mr. Taylor, do you do this by leave of the committee? Does the committee give leave? (Agreed)

The motion reads as follows: I move that this committee recommend to the Government House Leader the Economic Development Committee be called to sit again by March 28, 1989, to deal with Manfor.

In addition, it is requested that Hansard transcripts be forwarded on as soon as possible, signed by Mr. Taylor.

Mr. Taylor: You should add in the nine o'clock, Mr. Chairperson.

Mr. Chairman: That is right. I think Mr. Taylor, when he read it, he somewhere indicated it was nine o'clock. I do not see it on this paper.

Mr. Taylor: Just add it in, please.

Mr. Chairman: So I will add it in for you. The Speaker has indicated that the transcripts will be forwarded to you people by Saturday.

Mr. Cowan: Just one last question then, earlier the matter of whether or not the committee can hold in camera sittings was taken under advisement. Have we had any determination?

Mr. Chairman: Can we deal with this motion first? Is the committee in favour of the adoption of this motion? (Agreed)

In respect to your previous request, Mr. Cowan, it is possible to have in camera meetings, but I understand also that they cannot be recorded.

Mr. Cowan: Right.

Mr. Chairman: Does that answer your question, Mr. Cowan? Is it the will of the committee to rise?

An Honourable Member: Committee rise.

Mr. Chairman: Committee rise.

Mr. Angus: Mr. Chairperson, Mr. Manness was suggesting that there may be questions that we could deal with in the financial applications today. Are there indeed any questions from any Members of the committee, particularly of Mr. Bruce who is going to be leaving? I understand the other gentleman is going to be back.

Mr. Cowan: We have questions of a financial nature but we believe they can be answered by the Minister or the other staff that will be present, so I feel the same way.

Mr. Chairman: Committee rise.

COMMITTEE ROSE AT: 12:50 p.m.