

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Tuesday, October 17, 1989

TIME — 10 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. Helmut Pankratz (La Verendrye)

ATTENDANCE - 11 — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Derkach, Downey
Messrs. Angus, Ashton, Burrell, Helwer,
Maloway, Minenko, Rose, Taylor

APPEARING: Mrs. Gwen Charles (Selkirk)

Moose Lake Loggers

Mr. R. Kivisto, General Manager
Mr. Gordon Trithart, Secretary-Treasurer

Channel Area Loggers

Mr. Harold Lasn, General Manager
Mr. Gordon Trithart, Secretary-Treasurer

A.E. McKenzie Co. Ltd.

Mr. Dale Smeltz, Chairperson
Mr. Ray West, President and CEO
Mr. Ken Robinson, Vice President of Finance

MATTERS UNDER DISCUSSION:

Moose Lake Loggers Ltd.- Annual Report,
1987-88

Channel Area Loggers Ltd.- Annual Report,
1987-88

A.E. McKenzie Co. Ltd.- Annual Report, 1987
& 1988

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Mr. Chairman: Committee, come to order this morning to consider the 1988 Annual Report of Moose Lake Loggers Ltd.; the 1988 Annual Report of Channel Area Loggers Ltd.; the 1988 Annual Report of the Communities Economic Development Fund; and the Auditor's Report and Consolidated Financial Statements as of October 31, 1987, and 1988 for A.E. McKenzie Co. Ltd.

I would invite the Honourable Minister of Northern Affairs (Mr. Downey) to make his opening statement and to introduce staff members in attendance today.

* (1005)

Hon. James Downey (Minister responsible for the Natural Resources Development Act, A.E. McKenzie Co. Ltd., and CEDF): Mr. Chairman, if I could just ask the committee's indulgence to consider one change. I know that when we listed them we had listed McKenzie

Seeds as last. If it is possible I would like to reverse order with McKenzie's and CEDF, as McKenzie's have had to come in from out of town.

If I could get the co-operation of the committee, I would appreciate that and that would be the only change. Otherwise, I am prepared to start with Moose Lake Loggers, Channel Area Loggers, McKenzie Seeds and CEDF.

Mr. John Angus (St. Norbert): It is Moose Lake Loggers, Channel Area Loggers first, and then McKenzie Seeds. Fine.

Mr. Chairman: Does the Minister have some opening statements to make?

Mr. Downey: Yes, I have, Mr. Chairman. I just want to, first of all, thank all the representatives from the different corporations for coming in this morning. I hope that we can deal very aggressively with them and get the information that the Members of the Legislature require. The years that we are dealing with are '87-88.

The first one we will be dealing with is Moose Lake Loggers. We have Mr. Kivisto who is the general manager with us. He is here along with Gordon Trithart who is the departmental representative and the department officer who is also secretary of Moose Lake Loggers Ltd.

Before asking Mr. Kivisto to report to this committee I want to inform you that Mr. Clement Jones has resigned as chairperson, indicating that he has other responsibilities that must now take priority. On behalf of the Government, and on behalf of the Department of Northern Affairs, I want to thank Mr. Jones for his work over the past many years as it relates to Moose Lake Loggers and the direction that he has given.

I want to as well thank the other board members who have committed their time to making sure this corporation ran in the interests of the community and carried on with employment opportunities.

Also since our last report Manfor has been sold to Repap and you are also very much aware of that company's expansion plans. The communities of Moose Lake and Moose Lake Indian Band have jointly asked this Government to divest itself of Moose Lake Loggers. Due to the extreme importance of logging to the area this Government, through the Department of Northern Affairs, is working closely with the two communities to initiate a proposal which can demonstrate feasibility.

Having given that advance information I would like to introduce Mr. Kivisto who will provide his comments on behalf of the board of directors, after which questions may be addressed to myself and/or company representatives as appropriate. Mr. Kivisto, if you would come forward, please, I would appreciate your comments.

Mr. R. Kivisto (General Manager, Moose Lake Loggers Ltd.): Thank you, Mr. Chairperson, Honourable Minister of Northern Affairs, Members of the committee, ladies and gentlemen. We are here to report on the year ending March 31, 1988, and I have the pleasure of acting for John Martin, acting chairperson of Moose Lake Loggers Ltd. who could not attend today.

* (1010)

The year-end review ended in a shortfall position of \$142,359 which was substantially below budgeted loss positions, and I feel a good job was done to contain the loss to that figure by all concerned.

The year ending 1988-89 was also a loss position of \$183,517, which was offset by a \$150,000 operating grant by the Province of Manitoba, which was approximately \$14,000 above budget.

The fire in 1989 this year was disastrous, but the firefighters did a good job containing and limiting loss of timber in our camp area, so the outlook for our operations is still positive. Gordon Trithart the financial secretary and I will be happy to try and answer any questions that the committee has for us.

Mr. Chairman: Members of the committee, any questions?

Mr. Angus: Mr. Chairperson, I am not sure. Through you to the Minister, would you like to offer a bit more of an explanation on the Repap opportunity and the proposed divestiture? I am just not clear on what it was that you suggested. As I understand what you said, the company has come to you and said we do not want to be associated with the Government any longer and we want to go our own way. I am just not clear on that.

Mr. Downey: Mr. Chairman, I think it was the initial intent of the establishment of Moose Lake Loggers that someday the communities would be the owners and operators of Moose Lake Loggers Ltd. Since my term in office in the last few months, I have received from both the Moose Lake community, which falls under the Northern Affairs jurisdiction, and the Moose Lake Indian Band, a proposal to take over the operations of Moose Lake Loggers, which would in fact eliminate the participation by the province in the operation of that company. It would be totally grass-roots community operated, in conjunction with the supplying of wood for the old Manfor or the Repap operation, and it is at the community's initiative that they have come forward requesting the takeover of the company.

Mr. Angus: Mr. Chairperson, I appreciate and applaud the initiative and the confidence that the shareholders of the organization have. Is this just a transfer of shares? There would not be any sale conditions, if you like?

Mr. Downey: Mr. Chairman, at this current time the Government are working in co-operation with the two communities to see how it would best be able to be transferred to them. It would not be the intention of the province to make any profit or to hold up the activities. That is now in progress.

There is a report being developed which I have not received yet. It is still in the stages of discussion between the two communities and the province, but as I indicated I do not expect that there would be any large amount of money, but it would be the assurance that they would be able to continue to operate as a community-based company and continue with the employing of people and the activities that they have traditionally had in that community.

Mr. Angus: I am not clear as to who owns the cutting rights. Would it be Repap that would own the cutting rights or do the Moose Lake Loggers have designated areas for cutting rights? Would those be transferred with the agreement?

Mr. Downey: Mr. Chairman, it is my understanding that it is part of the Repap cutting area. However, that area through the past many years has been dedicated to Moose Lake, the Moose Lake community and Moose Lake Loggers. There would be no change in the dedication of those cutting rights. It would remain with Moose Lake and Moose Lake Loggers on the ongoing harvesting of that wood.

* (1015)

Mr. Angus: As I understand it then, there is a designated area that has been set aside for the Moose Lake Loggers to do a harvesting. Has there been any indication or any consideration of reviewing the parameters of the area and/or the cutting area or is the management satisfied that they have a sufficient area?

I bring that up as a result of the remarks made in relation to the devastation of the fire. Giving an individual company the rights to harvest something that perhaps is not there is not giving them very many rights at all.

Mr. Downey: Well, Mr. Kivisto may want to comment, but my general comment would be that is part of the forestry management program.

In discussing this with Mr. Kivisto he indicated that there appeared to be, and has been, sufficient protection of the forest to carry on with their operations, and I do not see any reduction in their harvesting because of it.

One area that may be increased in activity is the replanting or the scarification of the ground that has to be done, which again could be carried out by the Moose Lake activities. Mr. Kivisto may want to comment as it relates to the wood supply.

Mr. Kivisto: There is no firm inventory yet. Repap is doing this and it will be out shortly. I think the province is also doing inventory, but I think we can carry on an ongoing operation there.

Mr. Angus: You feel there is enough lumber to be harvested in the designated area that has been set aside for you?

Mr. Kivisto: Yes, I think there is still ample opportunity there.

Mr. Angus: Mr. Chairperson, let me just share with you some observations, and perhaps they will lead to some indications from the Minister as to whether I am right or I am not right and what controls can be put in place.

As long as we collectively, the Government-owned Manfor pulp and paper mill, we could arrange to agree to acquire, from Moose Lake Loggers, stock that we needed. That influence was always there, whether it was right or wrong there was an agreement. I am a little bit concerned.

I do not recall specifically the details of the cutting charges, and/or what was to be paid by Repap, and/or whether there were any guarantees of minimum amounts of purchase. My concerns would be that as we have transferred the corporation to the private sector they will be attempting to run an efficient operation.

If these businessmen from this area find it difficult to compete in terms of dollars and cents, that is if Repap can bring in their own people and harvest their own trees from other sections, what minimum assurances are there that purchases will be made from this organization?

Mr. Downey: Mr. Chairman, as we are dealing with the '87-88 report I think it would—and I will try and tie it in to answer the Member.

One of the major problems that Moose Lake Loggers had was when under the operation of Manfor by the province they saw a major reduction in the price of cordwood, which in fact caused the loss of massive amounts of money in the report that we are dealing with. That, Mr. Chairman, is something that has to be put on the record.

Since that time there have been small increases dealing with the returns to the company. I can assure the Member that this area has been dedicated to the Moose Lake communities. Moose Lake community people have been in full discussion with the Repap operators, in fact to the point of getting assurances that they would be quite comfortable to proceed in the taking over of Moose Lake from the province as it relates to the continuing supply of Repap. Repap and they have been very close in their discussions as to their ongoing operations.

* (1020)

Mr. Angus: Do I understand that there are specific agreements to acquire, at fixed prices, product over a specific period of time? The Minister is nodding affirmatively. Is that Mr. Kivisto's understanding?

Mr. Kivisto: I have not at least spoke to Repap on the new contract terms yet, but I think it will carry on in the same manner as Manfor did in the past. I do not really think that there is going to be any difficulty in arriving at terms.

Mr. Angus: Through you, Mr. Chairperson, to Mr. Kivisto. I would be concerned that I had what is called "ironclad" contractual arrangements with Repap before I invited the Government to pass over to us.

It has been my experience that the Government can influence and/or direct. Sometimes when they are looking at the broader picture as opposed to just the dollar and cents bottom line, they look at the needs of a community and the work relation from the contracts that they can get, and they can assist in ensuring that the contracts are fair and equitable.

So whatever the board can do, Mr. Chairperson, through you to those representatives of the board, to ensure that those cutting rights are secure in an area, that there is a review process, and that there is a guarantee that a certain quantity will be acquired and purchased to give them a leg up on it.

The second question I have, Mr. Chairperson, is the planting of seedlings. I notice that they have undertaken for Manfor the planting of seedlings. I suspect that is in their own designated area. I wanted to be assured that that was going to continue as well.

Mr. Gordon Trithart (Secretary-Treasurer, Moose Lake Loggers Ltd.): Mr. Chairman, in our deliberations with the two communities, that is the community of Moose Lake and the Moose Lake Indian Band, we have been working closely with Repap along with them, and all the information that has been made available to me on a first-hand basis was indicative that Repap 1) wanted the supply of wood; 2) they wanted to work closely with the two communities to ensure that there would be a long-term supply; 3) they wanted to be assured to the extent possible that the new entity of the two communities would in fact be operating in a manner which was conducive to them being able to pay for the wood.

So you might say that there is a great deal of effort going on between the two communities and Repap with the Government trying to at this time see that the communities' interests are there at all times.

We have also talked about reforestation for the future and of course they are willing.

As far as a long-term concrete agreement, there is not anybody in the industry that will give you that type of an agreement. They always leave a way out, like if you cannot produce the wood, they have to be able to go in and get it because they need it for their production line. Other than that I think Repap has the interests of the two communities in mind. Thank you.

Mr. Angus: Mr. Chairperson, an observation again, Repap has the only game in town in that neck of the woods as it were, and so I appreciate that they have to have raw product in order to be able to produce their finished product. There is no doubt in my mind about that.

* (1025)

If the Channel Area Loggers or the Moose Lake Loggers had absolute cutting rights to all the designated harvesting area, then I would not have any difficulty with that because then they would have as much to gain in holding back and negotiate as Repap would in not acquiring to produce, so that there would be a balance in terms of negotiation, if you like.

Unfortunately, that is not the case. The case is that Repap is looking at acquiring other cutting rights in other areas. I would be concerned if they felt, in the interest of the bottom line and not looking at the broader picture, if they were prepared to try and nickel and dime a worthwhile organization like this out of business, strictly on a competitive basis. What I am suggesting is that any security as to minimums, meeting certain criteria of production that could be garnered in a transfer agreement, would be beneficial.

Right now, Mr. Chairperson, through you, the major shareholder is the Province of Manitoba, so if you run into a difficulty, if there is some reason you cannot be competitive, you can go to the major shareholder and say, look, we have a problem, do you want to ante up? When you are your own shareholders you do share the rewards and the opportunities for expansion, yes, but you also have to be prepared to recognize and deal with the down side.

I am just suggesting, Mr. Chairperson, before I turn it over to my colleague from Selkirk (Mrs. Charles), be very cautious about securing, as best you can, based on productivity I would suggest, fixed fees in return for the agreement and get the Government to help negotiate that with Repap.

Mrs. Gwen Charles (Selkirk): To follow up on the questioning about reforestation, I note in the Moose Lake Loggers Report that it indicates they were allowed to plant, or given the contract rather to plant one-million-and-some seedlings, and yet in the Channel Loggers Report they were unsuccessful in its bid for reforestation contract as it quotes.

Why was one given a contract and the other not?

Mr. Downey: I think, Mr. Chairman, we can get into the questioning on the Channel Area Logger ones, why they did not get one, when we get it before the committee. Mr. Kivisto can, I am sure, report as to how they were able to accomplish a contract. In fact, I think there is some additional information which would be helpful as it deals with Channel Area, as they now I believe have been able to receive under our administration some contracts to reforest.

Mr. Kivisto: Manfor at the time right now there, or Repap, they control the tree planting and so we could deal directly with Manfor at the time this report was made, and this is the reason why we got the contract.

Mrs. Charles: Am I to take it the converse is true, that Channel Area Loggers could not deal directly with Abitibi Price and therefore they could not get the contract for reforestation?

Mr. Downey: We will further clarify that, Mr. Chairman, when we get Channel Area forward, but I understand that they now have a contract with the Department of Natural Resources for reforestation and so it is the way in which the Member reflects it.

Mrs. Charles: In a contract for planting seedlings, what does the contract entail? Is it just the planting of seedlings or is it the reforestation of the forest?

Mr. Downey: I will just make one brief comment, Mr. Chairman. As I understand it there are two ways of doing it. One is, some areas will replant themselves if mechanical scarification is carried out and the regrowth in fact comes back, probably a little too thick if anything, and I have seen some of it first-hand when I visited the Moose Lake community, and other areas which in fact are hand planted.

* (1030)

Mr. Kivisto: That is true, it is scarification which is a machine pulling a drag, breaks up the mineral soil and the cones and the area is in this manner reforested by itself without seedlings. In other areas where you may not be able to pull a drag because of the swampy nature of the ground, then you must replant. The areas that we replanted were planted with black spruce seedlings. Black spruce is one of the best type of trees to grow in this northern area.

Mrs. Charles: Further to that, once either type has taken place as scarification or the direct planting is there any follow up to the forest? Who is in charge of making sure that forest develops properly and fully as it continues on in growth?

Mr. Kivisto: In our area that would be Repap. Moose Lake would have nothing to do with it.

Mrs. Charles: The Minister is looking up to God and certainly would hope he would have a good part to play in that, but it is hard to write him into a contract, or maybe it should be easier to write him into a contract, but it does not seem that he is well regarded by many people.

Further to that, you are saying Moose Lake Loggers can therefore plant the seedlings and then basically walk away from the land, and Manfor, if anything goes wrong with the growth, the type of growth or the environment these new forests are developing in, then it would be Manfor's responsibility at that time, or Repap as the case may be now?

Mr. Downey: Mr. Chairman, as I understand it the Forest Management Department within the Department of Natural Resources is in charge of seeing whether or not it has been properly done, that who is in charge of our forests, traditionally under Manfor and the people's own company, that might have been the case, because they did not plant tree for tree as is within the Repap Agreement.

As I understand it the new agreement is a living tree for a living tree. So there will have to be closer scrutiny, and I am sure will be, as to the reforestation that has to be carried out. I am satisfied with that, and I notice Mr. Kivisto is nodding in the affirmative to that as well.

Mrs. Charles: That line, a living tree for a living tree, has been used on many occasions. I would like that defined. Is this a living tree when planted, or a surviving successful living tree to maturity?

Mr. Downey: My interpretation would be the second of which the Member has put on the record.

Mrs. Charles: I wholly support the Minister's interpretation. I am just wondering if that has ever been defined anywhere.

Mr. Downey: I think it is being done right now, Mr. Chairman.

Mrs. Charles: I am not sure, I think this is sufficient in that this is a major amount of our province that will be denuded of trees. A living tree planted and a living tree harvested are not necessarily one and the same, and the Minister certainly can appreciate that.

So I would hope there is not just "I think" and "we hope so," but that it is spelled out and defined in the contracts, since we have not been able to sit in Manfor dealings. In committees it is difficult for us to have this information.

Further to the harvesting of trees, the Member for Moose Lake Loggers has indicated there have been some studies done and inventories undertaken. Can both the Minister and Mr. Kivisto explain what type of inventories they are and how detailed they are please?

Mr. Downey: As I understand it, it has been done since the forest fire activity and is not complete yet. Mr. Kivisto, do you have something to add?

Mr. Kivisto: This is the way I understand it too, that it is not complete yet.

Mrs. Charles: There was some indication that partly the company was doing it and partly the province was doing it. Is that the procedure in that they will get their information together and compare it at that time?

Mr. Downey: I am sure the Natural Resources Department is in fact doing it, and I would think the company would be doing it for their own interests as well, to know exactly what resources there are there for their harvesting plans. It is important that both the province and the company that want to harvest the product know precisely what the resources are, the reserves.

Mrs. Charles: Can Mr. Kivisto indicate how old the trees are that are being harvested, the forests? Are they in the line of 80 years old or so?

Mr. Kivisto: Some of them are over 100 years old, I would say anywhere from 80 to 120 years old.

Mrs. Charles: Is it expected the same length of time will take for regrowth of that until it can be reharvested?

Mr. Kivisto: I would say it would take approximately the same amount of time.

Mrs. Charles: How long of a harvesting area, I mean the amount of area we have, how long will it take until it is completely harvested?

Mr. Kivisto: In our area, well, I could not really hazard a guess because I have not really been involved in any

studies on our area. That would be the Repap Forestry Department that would do that.

Mrs. Charles: To the Minister then, they must have a plan of how long the forest will be able to keep the company going, whether it is 10 years or 50 years. Can the Minister indicate how much supply is available for harvesting and for what length of time?

Mr. Downey: I think we are somewhat off Moose Lake report of 1987-88 but I will try to help the Member out, that it is my understanding they can continue to operate the plant with the resources that are available, continuing on with the program of reforestation as has been planned, continuing on with the harvesting as has been planned, and the area that is available to them. I would appreciate dealing with the report of '87-88 if the Member does not mind, but I will try and help her in areas that she is having difficulty.

Mrs. Charles: There is a comment I would like to say on that answer, but the Minister in this Government seems to want to avoid any questions about the amount of forest available to Repap and I certainly understand why they wish to avoid that. I just wish to put on the record that as my understanding through Professors at the University of Winnipeg that the original logging company at The Pas had to be closed down at one time because of lack of forests available for harvesting, I do hope that we do not see that in the case of Repap.

Mr. Angus: Getting back to the specifics of the report, in glancing at it, correct me if I am wrong, you are \$142,000 into the glue for last year's operation and you had a loss of that nature.

I also noticed in the report that the Government subsidized your Workers Compensation Board payments by approximately \$60,000 and provided you with a secretary-treasurer for approximately \$35,000.00. In looking at this from a private enterprise aspect you are a quarter of a million dollars into the glue. What are you going to do to turn that around when you take it over and cannot go back to your shareholders and say, hey, we need some help.

Mr. Downey: That is part of what is being worked on between the Moose Lake community, the Moose Lake Band in discussions with Repap as to how it in fact can be carried on and become a profitable operation, and that is the process that I have said that I am waiting on a report on. He is pointing out very clearly some of the difficulties that the taxpayers or some of the contributions that taxpayers have made and this has been an ongoing policy that the province pay for the Workers Compensation as they have done in Channel Area Loggers.

Mr. Angus: I appreciate that it is difficult and the board and the Government have to make the decisions. My understanding of the original reason for going into this business was to help create the employment in the community which it seems to have done. There are an awful lot of locals employed and gainfully employed. I suspect, reading between the lines the idea was, let

us give these people an opportunity to own and operate a business as best they can because the cost of providing the social services and looking after them from a Government perspective is a lot more than the rewards that can be gained by them doing these types of things.

* (1040)

So the Government attempted to provide guidance in the terms of a secretary-treasurer who I would think would be a competent and capable individual who would give guidance and grossly underpaid, I am sure. Then as I say, the arrangements were made to underwrite and assist them with their Worker Compensation Board stipulations and I applaud the initiative, I encourage the initiative. I am really concerned that when the golden carrot is dangled in front of their eyes of independence and autonomy that may be a desirable end result. There is an awful lot of chinks in this armour, Mr. Chairperson, through you to the Minister, that really have to be stop-gapped before you make that decision. So I am a little bit concerned about the Moose Lake Loggers, who I am sure have desire and have interest and have education and familiarity and know their business well, dealing with a large conglomerate such as Repap, who may not have the continuing best interest of the residents of the Moose Lake area in mind when they subsequently report, Mr. Chairperson, to a board of directors that call the shots and who do not live in the area and do not have the same concerns.

Mr. Downey: I have no difficulty with what the Member has said and again I want him to remember how this process has taken place. We have been approached by both the community and the band to take over the operation. They have available to them their own consultants and advisors and management people.

We are not forcing this. We are trying to make sure that we can accommodate it really is what we are doing. We realize as the numbers point out here some of the difficulties that have been incurred over the past. I think that we can have improvements for both the taxpayers and for the community as it relates to the operation of the company. I cannot assure them that we can turn it around as a Government operation but they feel comfortable or confident that they have some ideas and thoughts that if they were to get the end reward of improving their company that it probably would in fact improve faster. I am not going to let the thing fall through into a situation where they do not have those jobs. I want to see them operated. I want to see the long-term viability of this enhanced, and that is how we are approaching it, Mr. Chairman. I fully acknowledge what the Member is saying.

Mr. Steve Ashton (Thompson): Mr. Chairperson, I also want to talk in terms of the current financial situation and any future plans. Obviously the loss in the last fiscal year was the largest loss certainly in the last ten years, as I read the statements. I am just wondering, the Minister indicated that there has been some improvement in the current fiscal year. I am just wondering what the experience has been in the first two quarters this year in terms of the profitability.

Mr. Downey: Can I just again point out for the Member that to say that the reason for the major loss in this year occurred was because a reduction in the price paid for the cordwood which they were cutting these first two quarters, I will have either Gordon or Mr. Kivisto comment as it relates to some improvement in this first two quarters if they want?

The question was how is the company reporting the first two quarters of the current year that we are in?

Mr. Ashton: Yes.

Mr. Downey: I do not have that specifically. I can get it for the Member at a future time, but I do not have an update as to what the first two quarters of this year are doing. Is it in a better position than last year?

I can indicate, if this helps the Member, the actual is not quite less than half of what the budget was. It was budgeted to lose \$106,000 and its actual to the August 12 date of 1989 is about \$67,000.00. So it has shown some improvement.

Mr. Ashton: So there has been an improvement. Is that because of improved prices? Is that because of other activity on behalf of the company?

Mr. Downey: Again it is a good news-bad news situation. I believe the camp was rented out for the use of evacuees and people during the forest fire activity, so it is not directly related to the operation of the logging company.

Mr. Ashton: So this is the silver lining in the dark cloud of the forest fires in terms of improvements on the company's side. So there is the continued problem of the price paid by Manfor not being sufficient to provide a break-even. Is that essentially the current situation financially?

Mr. Downey: I think that is one of them, Mr. Chairman, not totally. I think the cost of operating the camp has been a tremendous burden on the company, the fact that there is a heavy expense as it relates to the camp some 70 miles out of Moose Lake, and that is reflected in the bottom line of the company. I have to say that in my estimation if we could find alternative uses for the camp site as it relates to training and/or other activities, it would in fact take the burden off the company, and I am not finished looking for alternatives as it relates to training for that camp. That is the biggest problem that they are having, the maintenance of the camp and the cost of operations.

Mr. Ashton: I am wondering if the Minister is conducting any discussions with KCC, for example, in regard to the training. There are going to be requirements with the Repap expansion for trained people, and one of the experiences of the last number of years has been that simulated training is far better than classroom training. Some of the training that was done in the communities, for example, by Limestone Training or in Pipe Lake could be far more successful than some of the classroom training that had previously been provided. I am wondering if this is an option that the

Minister would be willing to look at, and that is having KCC or Repap itself conduct some of the training out of the Moose Lake facility.

Mr. Downey: Yes, that has been requested and is an option that is being looked at. We have to remember though, and I can remember this after first taking over the operations of Moose Lake Loggers, the fact that the agreement at the Manfor plant would not allow them to take wood at lower cost that was generated by trainees in the forest. I do not think I am misrepresenting what actually took place. I know that Mr. Kivisto had pointed that out to me.

I think it is not an insurmountable problem and that is what I am saying. That is an option that I would like to see take place, to use the facility of the camp. I have nothing to report in a positive way that has been completed, but again what the Member is saying is a possibility that I would like to see carried out. It would give the local community a return for the use of that camp other than just using it for an outpost for their logging operation.

Mr. Ashton: I am certainly encouraged by the community's interest. It comes at a difficult time. Obviously this is the worst loss position the company has been in in the last decade, not through any fault of their own, through the general market conditions that are facing them. With 73 jobs at stake I guess the only concern would be in terms of whatever conditions were negotiated, because obviously if you were taking an operation that is losing, in this case less than was budgeted but still losing a significant amount of money, it seems to me there would have to be some significant support from the provincial Government, even if it was turned over to the community, at least on an interim basis for the company to be viable.

I believe the report refers to 73 jobs. Seventy-three jobs in that area is very significant and certainly well worth even the subsidies that have taken place in these years although I would point out, as the report indicates, that in six out of the last 11 years the company has been profitable. It is certainly well worth it. I cannot think of any other job creation program that provides the same value for the money. I also tend to agree with the community to a certain extent that with some innovative changes to the operation and also with the stake of the operation—one thing the community economic development has shown is that when communities have a stake in what happens you get a far better result than when the stake really is held by, in this case a Crown corporation or in other cases a private company. I would certainly indicate our interest in seeing the community's proposals listened to, so long as there is the equivalent support from the provincial Government.

Mr. Chairman: Shall the 1987-88 Annual Report of Moose Lake Loggers be passed—pass. Mr. Minenko had a few questions?

Mr. Mark Minenko (Seven Oaks): On Moose Lake.

Mr. Chairman: Okay.

Mr. Minenko: Even though it is passed?

An Honourable Member: Leave of the committee.

Mr. Chairman: Leave? Okay, good. Mr. Minenko.

* (1050)

Mr. Minenko: I would like to direct some questions with respect to the report that we do have ending in March 31, 1988, direct some comments with respect to page 6 of the report where it sets out the training. I would like to ask some questions of the Minister and staff with respect to the on-job training of these sites here.

Who is in charge of the on-the-job training?

Mr. Downey: Mr. Chairman, the local board of directors is in charge, plus the management.

Mr. Minenko: Who has the day-to-day operational control of that?

Mr. Downey: Mr. Reno Kivisto, who is sitting here at the head of the committee. He is bigger than you are. Just an observation.

Mr. Minenko: In accordance with what standards is the training provided? Is there a set training plan or is it done on an ad hoc basis?

Mr. Downey: Yes, Mr. Chairman, the operation of equipment and replanting and activities as it relates to the forestry.

Mr. Minenko: Does that relate to a particular standard or is it a standard determine by the corporation?

Mr. Downey: I guess, Mr. Chairman, it is to the satisfaction of the company that are operating the training program at their own expense really. They are in control of it and it is in the best interest of the company to have people qualified and capable to carry on with the day-to-day operations and make sure they have an available workforce who are competent and qualified.

Mr. Minenko: Are there any national or any types of qualifications received as a result of this training that are transferable to other employment, either in the Province of Manitoba or outside?

Mr. Downey: I would say, as it relates to the personal skills of those individuals to move on either to another work activity of similar nature and/or advancement in the company of Moose Lake and/or further wood-related activities or management. If it is on the management side, then opportunities open up, and then this work experience and qualification would be supportive of that person moving on. As far as having a degree in forestry, no, there would be no paper degrees that would come from the activities.

Mr. Minenko: Really, the training that the people receive is really oriented towards the company. Is that correct?

Mr. Downey: That is correct.

Mr. Minenko: So these skills are not transferable outside of the company?

Mr. Downey: Yes, for a company of similar type activity, they could be used in other activities in another company.

Mr. Minenko: Is there any tie in with respect to the Limestone training programs in the past?

Mr. Downey: Not at this current time. There could have been some in the past. I will let Mr. Kivisto answer that, but at the current time I do not believe there are any.

Mr. Kivisto: We have trained through the Canada Employment Centre. With their help we have trained clerks and in fact one of the clerks that was trained at our operation is now in the Northwest Territories. He is actually doing the administration of a town in the Northwest Territories, which is Alex Campbell. He used to work for Northern Affairs after he worked for us, so some of them are transferable. The ones that are in job training for cutters, skidder operators, they would only be transferable to a company similar to us.

Mr. Minenko: I would like to just ask your staff, seeing the Minister could not reflect on the past years, was any of the training being provided by the company directly related to the Limestone training programs?

Mr. Kivisto: No.

Mr. Minenko: With respect to the notation on whatever page that it has the number of people that were hired, on page 2, the third last paragraph, dealing with the contract to plant seedlings. There were 34 jobs created. How long were these jobs created for?

Mr. Kivisto: They would be only for the specific time until the planting was finished, approximately six weeks to eight weeks.

Mr. Minenko: How were people hired for these jobs then?

Mr. Kivisto: Mostly through the Canada Employment Centre Outreach at Moose Lake.

Mr. Chairman: Mr. Minenko, any more questions?

Mr. Minenko: Dealing with the report, Exhibit C, statement of revenues and expenditures, comparison between '88 and '87, I see there is, although the drop in the actual log-cutting contract, I see there is quite a jump in the board charges. I was wondering if someone could comment on exactly what that is and what is involved with board charges and what could explain the almost 100 percent increase?

Mr. Downey: A point of clarification, is the Member referring to board charges on the revenue side? We

have shown an increase from \$59,000 to \$96,000 as it relates to board charges as an income, right?

Mr. Kivisto: This is room and board charges. If I remember correctly, it is quite awhile ago. If I remember correctly it is because I set an increase in the room and board charge.

Mr. Minenko: The next point is road maintenance. Again we show an increase there. What exactly is involved in the road maintenance?

Mr. Downey: Mr. Chairman, it is important to make sure the roads are maintained to get in to get the product off the fields, the forest fields, and to make sure they are capable of being travelled by employees. It is that kind of maintenance we are talking about. There is no major construction in here to my knowledge, and/or it could be a small bush road or two that could be put in.

Mr. Minenko: Is that paid by the Highways Department to the corporation or where does that revenue come from?

Mr. Downey: By Repap.

Mr. Chairman: Any more questions? The report is accordingly passed.

* (1100)

CHANNEL AREA LOGGERS LTD.

Mr. Chairman: The next one is Channel Area Loggers. Mr. Minister, for some comments.

Hon. James Downey (Minister responsible for the Natural Resources Development Act, A.E. McKenzie Co. Ltd., and CEDF): I would just like to thank Mr. Kivisto and Mr. Trithart and the board for their long years of service and work to try and operate the Moose Lake company.

Let me now introduce Harold Lasn who is the manager of the Channel Area Loggers. We still have the same departmental officer who is Gordon Trithart who looks after it as far as the Northern Affairs Department is concerned.

Let me first of all, in the introduction again this year of Mr. Lasn, compliment him in the way in which he has been able to take over the responsibilities of Channel Area Loggers. This report that we are dealing with today, this period of time, has not been under the direction of Mr. Lasn, but I can say that current reports as are coming out of Channel Area Loggers are much improved, and I compliment not only Mr. Lasn but the co-operation the board has provided and the work force at Channel Area.

We are all aware that we are dealing with the report of the year ending March 31, 1988, and since another year has elapsed we are prepared to touch briefly on the year ending this year as well, 1989, to maybe assist the Members with their current understanding of what is going on within the company.

In summary, the two years ending March 31, 1989, are financially discouraging. However, I am heartened as I said earlier by the deliberate steps the company has taken since late 1988. That is the hiring of an experienced manager, decrease of \$40,000 in loss position for 1988-89 and the general efficiency trend that appears to be sustained into early results of 1989-90.

I suggest we allow Mr. Lasn to make his opening remarks after which we can discuss the details of the report.

Mr. Harold Lasn (General Manager, Channel Area Loggers Ltd.): Mr. Chairman, Honourable Minister of Northern Affairs, and Members of the Standing Committee. Mr. Lester Everett, who is the chairman of the board of Channel Area Loggers, was unable to attend so I will be acting on his behalf to provide you with the annual report.

This report covers the operating year of April 1, 1987, to March 31, 1988, inclusive. During this operating year, Channel Area Loggers sustained an operating loss of \$207,541.00. This loss was considerably higher than the previous year, but I feel that there were contributing factors involved.

The major factor was the lack of qualified management which created the problem of improper planning, and layout which results in lower production and much higher costs. An interim manager in January of '88 was brought in and through his management was able to hold the loss at the mentioned figure rather than to let it escalate any further. Also because of the lack of knowledge, maybe from the manager, there was a three-week work stoppage by cutters and truckers. Measures are now in place to keep this from happening again.

Mr. Chairman, that concludes my portion of the annual report, but I would like to state that along with Mr. Trithart I would be more than happy to answer any questions relating to the direct operations of Channel Area Loggers Limited.

Mr. Chairman: Any questions from the official Opposition and the third Opposition—Mr. Ashton.

An Honourable Member: Second Opposition.

Mr. Chairman: Second Opposition, okay.

Mr. Steve Ashton (Thompson): Well, when you are second, you try harder.

I just want to follow up, in terms of the current financial situation. I guess once again paralleling the previous report the fiscal year we are dealing with here is a significantly higher loss than in previous years. In fact I believe it is really one of the largest losses. There was a larger loss actually a number of years ago. I guess in '85 and also in 1980.

I was wondering if we could get an exact indication of not only the current fiscal year, if we can call the '89 fiscal year that just ended, but in terms of the

subsequent two quarters, the current fiscal year and what the projections are, what the budgeted loss is and what the performance has been. Has it been similar to the Moose Lake situation, where it is coming in better than planned, or have there been other difficulties?

Mr. Downey: Mr. Chairman, the company is projecting for the total year of '89-90 a turnaround in the company in showing a profit of just under \$80,000 for this year. That is what the projection is for this 1989-90 year that we are in.

I am satisfied that we have seen some positive activities taking place, and I think when one looks at the management problems that the manager has referred to—plus we went through a very difficult year with forest fires the following year, last year in that Berens River area. In fact, added to the losses which cost us money for road upgrading and lost time in harvesting—

An Honourable Member: That would have been before this report.

Mr. Downey: No, it is following this report. This is '87-88. Last year, '88-89, was the difficult year in the Berens River for forest fires, the first year in which I was the Minister.

Mr. Ashton: The projections of a profit, what has the experience been in the first two quarters of this year?

Mr. Downey: The first two quarters, as of July 24, we have an actual loss of just under \$90,000, and that is \$10,000 over a budget of \$79,000.00.

Mr. Ashton: So the budget was for a loss of \$79,000 the first quarter, it was over that, but the projection is for a profit in the overall fiscal year? Is that my understanding?

Mr. Downey: Would you repeat that, please?

Mr. Ashton: For the '89-90 year, current fiscal year we are dealing with, there has been a loss of \$79,000 in the first two quarters but there is a projected profit of \$80,000.00?

Mr. Gordon Trithart (Secretary-Treasurer, Channel Area Loggers Ltd.): That is correct. Unfortunately, to some extent these figures on a month-by-month basis do not give you a real good idea of what is happening, and there are two reasons for that. 1) We have to do our producing in phases, because the delivery of the wood goes to a barge landing on Lake Winnipeg, and 2) our advances from Abitibi-Price are, in the main, at the end of these when we get our wood onto the landing, rather than at the front end as would be understandable in business.

So that gives you the picture of a loss in the early months of the operation.

On the other hand, the Member asked if those figures were correct. Yes, a budgeted loss and an actual loss for the period ending July 24 and, yes, a budgeted profit of \$79,000 for the year ending March 31, 1990.

Mr. Ashton: Reference was made to management problems in the opening statements. I just wonder what action has been taken to correct the management problems.

Mr. Downey: Mr. Chairman, there has been a change in management. The board of directors who direct the company have made a change in the management. That is basically it.

Mr. Lasn may want to further comment on that. I know he made a brief comment about it in his opening statement. He may want to further identify specific areas that were in areas of shortfall.

Mr. Lasn: I am in a difficult position here because I am the change of management. Anything I may say at this time would sound like I am blowing my horn. By no means, I do not mean to do that. I present my qualifications, and I am dealing closely with the board of directors to make some changes. We have made a considerable amount of changes both in operations and in advancement to diversify the company and as stated earlier, I do believe that we will end this operating year with a budgeted profit of approximately \$79,000.00.

* (1110)

Mr. Ashton: So we are in a bit of a different scenario than with Moose Lake. In Moose Lake the concern was the price. Here the main area that has been identified, in terms of improvement, is in terms of management processes. Is that a correct analysis of the difference between the two operations?

Mr. Trithart: Yes, Mr. Chairman. During the year under review, the local manager that we have had left to take on some additional schooling, and in fact he is in university right now working towards becoming a lawyer. We had a lot of difficulty trying to get a replacement for him and it was not until October of 1977 that we got someone in place, and that individual had to be relieved of his duties by early January 1988. I think I said '77, I mean '87.

Now at that particular time the prior incumbent was able to come and help us out for a couple of months. However, because of the management problems we did not have contractual arrangements in place, and we had a work stoppage for three weeks before we got it solved. This was in a prime-cutting time which by the time we got it resolved, it interfered with both the delivery of the wood and the cutting of the wood.

Subsequent to that we did a tremendous amount of searching, and I think I would be remiss if, I know what comments the manager made, and I would be remiss if I did not say that I am here also to blow his horn.

Mr. Ashton: In looking through some of the financial statements, there was, however, a major drop in revenues from the '87 to '88 period. I am just wondering what the reason behind that is. I notice there was a drop in pulpwood sales, commissary sales, and fortunately a drop in board charges too, which is on the positive side, but in terms of miscellaneous as well

there is a drop. I wonder if we could get some explanation, in addition to the fact that there was no reforestation program or log sales in '88, as compared to 1987, because I notice there is a decline of total revenues of approximately \$400,000.00.

Mr. Trithart: Approximately 80 to 85 percent of the drop in revenues relate directly to a decrease in production of some I think it is around 3,700 cords. In addition to that, you mentioned there was no reforestation program. We had done a reforestation program in the prior year and in that current year we bid on a reforestation program and lost the bid to another resident of Manitoba.

Mr. Ashton: On the other side, in terms of expenditures, I notice there was an increase in general administrative charges. In looking at the Schedule 2, the most significant item that was present in 1987 was in terms of consulting fees, I am just wondering, I assume this was a consultant's report. Who did the report? What the terms of reference were and what action, if any, has been taken with regard to the consulting report?

Mr. Trithart: This was predominantly a report to do a 10-year cutting plan and it was done by the individual who had been managing it previously, a local person. That was the cost of the plan.

Mr. Ashton: It is a very significant amount of money. I am just wondering what action is being taken in regard to the consultant's report. I do not know the depth of which it was under, but 18,000 I would assume would be a fairly extensive report. I am just wondering what actions are going to be taken in the future to justify that expenditure.

Mr. Trithart: The report was very extensive. It covered a specific 10-year cutting plan including the mapping from aerial photos and a booklet indicating all the maps, where the cutting areas were, when they were to be cut, what species were in that particular area and what volumes were in that area. There was also included in the plan, larger maps, I think one of which was presented to this committee last year and actually I think if we had gone to a professional consultant, the cost probably would have exceeded \$50,000.00. I think we really got our money's worth, unfortunately most of that wood burned in June of 1988, or a good portion of it, I should say.

Mr. Ashton: Also looking at Schedule 2, there are a couple of other items that show a difference between '87 and '88. One is in terms of taxes, licences and fees. It is listed in 1987 as \$919, and in 1988 increased to \$12,288.00. I am just wondering what the reason behind that is.

Mr. Trithart: That was again, I guess you could call it, a management problem regarding fuel taxes from prior years.

Mr. Ashton: I am not sure I understand the explanation. Were these taxes that should have been paid in prior years and were not paid and were subsequently paid in the 1988 year?

Mr. Trithart: That is correct.

Mr. Ashton: How could fuel taxes have been ignored in that period? I am just curious as to why no action was taken by the Taxation Department.

Mr. Trithart: I cannot answer for the Department of Finance but at one time we had been taxed at the level of the source, and it was then found out that we were utilizing fuels for different machines, and paying in some cases more, and in some cases less. To divide it up into different lots presented a storage problem. We got an agreement from the Tax Department to have the fuel shipped in tax free and we were to pay the tax on it. The tax for some unknown reason was overlooked and we used volumes in excess of 70,000 gallons, so it does not take long to make that up.

Mr. Ashton: In other words, there must have been some fault in the Accounting Department for not living up to the agreement. I am just wondering if there has been any action taken in terms of the Accounting Department because that, to my mind, is a serious omission. You can just see the impact it has on the financial statements when you are going from \$919 in the previous year to \$12,288.00. Has any action been taken in terms of the Accounting Department?

Mr. Trithart: That was put in there specifically so that it would be seen rather than hidden in the total cost of the fuel. Ordinarily the tax is charged to our fuel account and then when it is sold or used, it is expensed out and which includes tax. So that is the reason it is set out like that. I can tell the Member that as early as two weeks ago we sat down with the Taxation Department to review our position once again because of the fact that there were recent changes to The Fuel Tax Act.

Mr. Ashton: Also in looking at Schedule 2, I notice there was something of an increase in bad debts. I was wondering if there could be an explanation of what type of bad debts that Channel Area Loggers would incur.

* (1120)

Mr. Trithart: From time to time, we charge for things in the commissary to the individual workers, the cutters, for clothing and it is usually taken out of their pay. In addition to that, we have a number of owner-operators of machines who, from time to time, have trouble meeting their payments or where they have a large breakdown and the company has to assist them in order to keep them going.

These things do not always work out and if somebody leaves and has not paid their bill or has not earned enough revenue, for example, come in and charged up a whole lot of things and then leaves after the first day, sometimes you get stuck with these things. Sometimes you can fix a machine and the individual does not want to carry on. What we try to do is to make sure that the machine stays there and that someone else can take it over.

Mr. Ashton: On the more positive note, in Schedule 2, I notice the travel and accommodation was

decreased. Is that board travel? Is that a function of fewer meetings in the year, or is that some other cost item?

Mr. Trithart: That is not board travel, that is company travel and probably has something to do with the absenteeism of management, the fact that the company did not have management throughout the year.

Mr. Ashton: Under Schedule 1, in terms of production expenses, I notice there was an increase in the kitchen and dormitory from \$20,000 to \$40,000.00. Is that just an indication of increase in rates as was similar to a situation with Moose Lake Loggers?

Mr. Trithart: No, I do not think that is a rate increase, a general increase in costs, and I am not positive of this but I am quite sure that relates to some kitchen equipment that was necessary and some repairs to the kitchen.

Mr. Ashton: Those costs were all allocated to that fiscal year.

Mr. Trithart: That is correct.

Mr. Ashton: Also in terms of some of the other expenditures, I notice there has been an increase in road construction and maintenance from \$117,000 to \$140,000.00. Is that an ongoing program, and what are the projected expenses over the next period of time?

Mr. Trithart: Quite differently from that experience with Moose Lake, we are responsible for all the roads, that is, main roads through the bush and those roads which lead off into the various sections that we are cutting in. I would suggest that when you have management problems during the year, your road costs almost automatically go up because of lack of control. Yes, there are ongoing road needs and, specifically as they relate to the fire which devastated that particular area on the Berens River, that is making us build roads to access other supplies of wood. In fact, in the current year we began building a road.

Mr. Ashton: There is also a significant difference in terms of depreciation. Nineteen eighty-seven it was at \$13,154, and 1988 it was \$28,145.00. Is that due to a change in accounting practice or is it due to purchase of additional equipment? It is a very significant difference of depreciation in one year.

Mr. Trithart: That relates directly to the mechanical snipper.

Mr. Ashton: So in other words that will be the level of depreciation in upcoming years because of that purchase of one additional item of equipment.

Mr. Trithart: Mr. Chairman, yes, providing that we do not acquire any additional.

Mr. Ashton: I thank the company officials for the explanation. It gives us an idea of some of the unusual

costs that took place in that year, some of which will be continuing costs, obviously depreciation on the newly purchased equipment. Road construction, I assume there will be a continual program but it may not continue at that level. In terms of kitchen, dormitory supplies, I would imagine it would not be another major increase. All those items add up, the same thing with the consulting fees in one that year.

In essence, the way I read the report, the overall loss figure tends to overstate the actual operating loss. Some of those items, even though they are recorded as operating, obviously are long-term. The consultant's report for example, the various other items, the depreciation is part of new equipment that was purchased. We basically are looking at a situation where perhaps the loss overstates the exact situation, particularly given the problems with management, because if that can be corrected that might explain some of the current projections.

One other question I had, more for the Minister, there was discussion on Moose Lake, of the community taking over the operation of Moose Lake Loggers. I am just wondering what the situation is in terms of Channel Area Loggers and the community of Berens River. Have similar requests been made to the Government and if so, what are the status of any discussions?

Mr. Downey: No, Mr. Chairman.

Mr. Ashton: Would the Government be open to any proposals from Berens River if such proposals were forthcoming, similar to the situation with Moose Lake Loggers?

Mr. Downey: Yes, Mr. Chairman.

Mr. Ashton: Just finally, because I know the Liberal Member also has a series of questions on this issue, it has obviously been a difficult period for Channel Area Loggers but I think we all recognize the importance of the operation in the community. It employs a total I believe of 34 people, and once again it is a major employer in that community. I believe it is, according to the report, the second largest employer next to the fishing industry, so we certainly wish the board, management and employees well in the upcoming years. I am certainly pleased to see that some of the problems they have encountered are now being turned around.

Mr. Mark Minenko (Seven Oaks): In relating to the report on page 6, paragraph C, Related Activities, it says here the company was unsuccessful in its bid for a reforestation contract. I am just wondering if the Minister's staff could explain that particular circumstance.

Mr. Downey: Yes, as I understand it there was another company, Manitoba based, that bid at a lower price to do the contractual work for the Government.

Mr. Minenko: What was that company?

Mr. Downey: I would have to get that information for the Member.

Mr. Minenko: Is the Minister also aware what the price differential was between the two bids?

Mr. Downey: I do not have that information but I can get it for the Member.

Mr. Minenko: Also I would like to ask the Minister or the staff of the corporation whether they are involved in any litigation at the present time.

Mr. Trithart: Not that I am aware of.

Mr. Minenko: Has the corporation been involved in any recent litigation in the past?

Mr. Trithart: No.

* (1130)

Mr. Minenko: Does the corporation anticipate to have any litigation in the future?

Mr. Trithart: No.

Mr. Minenko: Are there any circumstances presently that have led to any settlement negotiations with any parties?

Mr. Downey: I just have a brief comment. If the Member has some information that the company are not aware of as it relates to any type of legal action against them, I think he would be more than responsible if he were to disclose that at this particular time. We do not know of any action that is being planned against Channel Area Loggers. I would ask that if the Member knows of some, he would be forthright and tell us about it. He seems to be on some type of fishing expedition.

Mr. Minenko: I ultimately reject the suggestion of the Minister's fishing expedition comment. Perhaps that might more relate to when he was in Opposition and chose various avenues of attack. As a responsible Member of this committee, I am simply asking the Minister or representatives of the corporation whether there is any, because that would obviously affect how the corporation may be run in the future if there was some involvement. I am just making these enquiries without any specific knowledge and I was just wondering whether there have been some settlements recently that the company has been involved in.

Mr. Downey: No, Mr. Chairman, and as of today I am not aware of any.

Mr. Minenko: There is none in the past and none anticipated in the future?

Mr. Downey: As I understand it.

Mr. Cahriman: Any more questions? Mr. Minenko.

Mr. Minenko: Is there a protocol in place by which the Minister would be advised of any situations that may arise?

Mr. Downey: Yes.

Mr. Minenko: Could the Minister set forth that protocol?

Mr. Downey: Mr. Trithart works for the Department of Northern Affairs and answers to the Minister, and he is responsible for Channel Area Loggers. I am sure I would have reported to me anything that takes place within the company as to that kind of nature.

Mr. Minenko: So that would involve any sorts of settlements reached by the company with any other party?

Mr. Downey: As is this Member sitting at a committee, any activities like that would be incurred as an expense or activity would be reported to the committee of the Legislature.

Mr. Bob Rose (St. Vital): The company in that year produced 3,650 cords. Is there a projection for the next year after that? I think the Minister said that we may be asking questions in that regard?

Mr. Downey: Yes, we have responded to that question as to the projection for next year. To July of this year we had projected approximately an \$80,000 loss, but for the total year we are looking at approximately an \$80,000 profit. The reason for us showing a loss at this particular time is because when the wood is harvested and put at point of shipping to Abitibi, we are not paid for it. We are not paid until that product is moved down into the Abitibi system several months later and, therefore, is the reason for the delay in showing an income for the company.

Mr. Rose: What was the projection on the cords cut then in that year, and I am talking about the year ending March 31, 1989?

Mr. Downey: 19,000.

Mr. Rose: 19,000 cords?

Mr. Downey: That is correct.

Mr. Rose: Thank you. Did you have a projection for the current year or how the forecasts are, taking into account the forest fires and everything and what it might be? Just a ball park figure.

Mr. Lasn: The projection for this year is 19,000 cords.

Mr. Rose: About the same as the previous year, is that what we are hearing?

Mr. Lasn: Yes.

Mr. Rose: I wondered if I could touch a little bit on the reforestation and what effect, if that contract was in the hands of this company, it would do for their operations. While I am asking that question, how long the present contract is for, and if the present people—I think it has already been a question of who it was

and we have not got that answered if I am not mistaken—but if the present people in that contract are using local people for the contract?

Mr. Downey: Mr. Chairman, as I indicated earlier in questioning, we are dealing with the '87-88 report of which indicates that Channel Area Loggers did not have a contract with the Government.

Channel Area now has a contract with the Government and this past year, I believe, are planting seedlings and will add to the income of the company. Mr. Lasn may want to further elaborate that we do now have a contract.

Mr. Lasn: Yes, we have now entered a contract with the Natural Resources. We did a small, what they call a test plot, plant of 10,000 trees this past summer. At the present time we are site-preparing for next summer. I think the projected figure is 300 hectares or 700 acres. We have been asked to submit a proposal for tree planting for next summer to plant approximately 300,000 to 400,000 trees. That proposal will be concluded within the next two weeks and will then be presented to the Department of Natural Resources.

Mr. Rose: Looks like a substantial increase in reforestation. I guess we would commend your operation and the Government for taking that initiative. I imagine what it appears to me and maybe you could confirm it that it probably looks up -(interjection)- if we are looking at the designated area for cutting by the company, we are probably looking at playing a lot of catch-up over the last few years because of neglect and perhaps out of disregard for reforestation. Is that correct?

* (1140)

Mr. Lasn: You better have a politician answer to that one.

Mr. Downey: I would say that is a fair assumption, Mr. Chairman.

Mr. Rose: Mr. Chairman, in regard to the financial statement, it probably should be obvious but in the little while I have been looking at it I am wondering, being that the inventories are down, in that accounts payable are down, and the Government covered the loss of some \$216,000 with their subsidy receivable and that the fixed assets only increased by \$63,000, why the bank loan? I am sorry if it is very obvious, but why the bank loan as high as \$195,000 compared with only 80 a year before? Is there a simple explanation to that?

Mr. Trithart: Mr. Chairman, the losses have been in the past paid annually in arrears and, while the statement might show that there is money coming from the province, it would be set up in the accounts receivable and paid at a later date.

Mr. Rose: I notice on page 2 there is a 10-year cutting plan. That is not part of this document, I see. Could

you outline the specifics somewhat of that plan, how much territory it covers and, in the 10 years, how much of this specific designated area will be cut in that time by approximate percentage?

Mr. Downey: Mr. Chairman, as we have made reference earlier in the committee, there is a map which is available for the Member to view if he wants to do so. I will have Channel Area bring it to either another committee and/or have it available in my office for that information, but it is part of planning that has been done by Channel Area as it relates to a study that was referred to in questioning earlier.

Mr. Rose: Thank you, I will take advantage of that. In view of the large number of fires, the volume of fires and the cutting plan, has there been a study made of what effect this will have on the habitat in that area?

Mr. Downey: As to the habitat?

Mr. Rose: Yes, and wildlife, et cetera, fauna and flora.

Mr. Downey: There is an ongoing assessment made, as is made following any forest fire activity, as to the impact of it. I do not know how specific or updated it is from last year because it was last year that the major fires took place in that area, but again I am sure there is an assessment made as to what impact it has had. Channel Area Loggers have not done that. Channel Area Loggers are in the business of logging and making sure their plan is in place for harvesting of wood and trying to make a profit. As it relates to the resource and the habitat, I am sure we could get that information from Natural Resources.

Mr. Rose: At this time you do not have the results of those studies. Would the Minister be able to supply the committee at a later date what those findings are, what those reports indicate?

Mr. Downey: Yes, Mr. Chairman.

Mr. Rose: I thank the Minister for that undertaking. I have one last question here. The Minister may be able to answer it. It is not to do directly with the report, but I notice that all the cut wood goes to Abitibi Price. I notice that in Ontario they are looking for retooling and for recycling of products, and I wondered if the Minister had any knowledge of such action in their plant at Pine Falls.

Mr. Downey: No, I have not, Mr. Chairman.

Mr. Rose: One last question. In regard to the plant, and again it does not apply directly to this report, but with the indulgence I was wondering what degree of pollution may come out of that plant at Pine Falls, if the Minister is aware of any latest reports or whether such information is available.

Mr. Downey: As it relates to Channel Area Loggers, we are not aware of any reduction or changes to the operation of Pine Falls and of supply of wood which we are providing, Mr. Chairman.

Mr. Rose: Thank you very much.

Mr. Minenko: I have another couple of short questions with respect to the legal and accounting expenses section in the report. I was wondering if someone can comment on the use of accounting firms and legal firms to do work as required by the corporation. Has there been any change of the firms involved in providing those sorts of services covering the period of time relating to this report?

Mr. Downey: No.

Mr. Minenko: What firms were in fact used by the corporation to provide those legal audit accounting services?

Mr. Downey: I believe it is in the report. Mr. J.W. Singleton, C.A., Assistant Provincial Auditor has reported in the report, and in addition Wiebe Knowles does some additional work for the Channel Area Loggers.

Mr. Minenko: Has there been any change with respect to the legal auditing services providing firms since the report?

Mr. Downey: No.

Mr. Minenko: So the same firms used in '87 and '88 are the same firms that are used at the current time?

Mr. Downey: Yes.

Mr. Chairman: If there are no more questions, shall the '87-88 Annual Report for Channel Area Loggers be passed—Mr. Ashton.

Mr. Ashton: Just on a point of order. Earlier the Minister had requested that we reverse the order in terms of McKenzie Seeds and the Committee of the Economic Development Fund.

I left the meeting because I wanted to check with the Member for Brandon East (Mr. Leonard Evans). Because of the original order, he had not anticipated that McKenzie Seeds would be up today. I know he may have some questions which he wishes to deal with.

I would suggest that we either deal with the CEDF report or else if we do deal with McKenzie Seeds that we allow him some opportunities. I do not believe in fact I know we are not going to finish today.

Mr. Chairman: Mr. Ashton, shall the Annual Report for Channel Area Loggers be passed? Is it the committee's will to pass—pass.

Mr. Ashton, go ahead.

Mr. Ashton: I explained it.

Mr. Downey: Same point of order, Mr. Chairman. It was clearly the intention of the committee to deal with

all the reports this morning, and I think we can still do so. I would ask that the Member have McKenzie Seeds come forward, and we will deal with it if we still have time to deal with CEDF. The committee have agreed with that, the Liberal Opposition agreed with it, that is how we are proceeding, and I thought that we could of completed them all.

Mr. Chairman: Mr. Ashton, that is really not a point of order.

Mr. Ashton: Mr. Chairperson, it is most definitely a point of order, and I am disappointed that the Minister is not willing to be co-operative in this matter. I can tell the Minister in terms of CEDF that in itself will take us a lot of time before adjournment. I do not anticipate completely. All I asked for was the opportunity for the Member for Brandon East (Mr. Leonard Evans) to be able to raise some questions.

I suggested two possible alternatives: one is that we deal with CEDF right now; or the second being that we deal with McKenzie Seeds and leave it open, not pass it. If there were questions by the Member for Brandon East, or other Members that we could deal with it at subsequent questions. In fact the Member may not require the presence of staff, so we do not have to bring them in from Brandon again. I was just trying to accommodate the committee's situation and the needs of the staff for McKenzie Seeds.

* (1150)

Mr. Chairman: I would like to state again that is not a point of order, but, Mr. Minister, do you want to respond?

Mr. Angus: Mr. Chairman, I would suggest that we deal with McKenzie Seeds. I believe that it is probably going to take the time, and if we have time obviously we will deal with the one. If it stays open, it stays open.

Mr. Downey: Mr. Chairman, I just want to thank Gordon Trithart and Harold for their participation, the Board of Directors of Channel Area for their work and activities and wish them well in their ensuing months of operation, and now call McKenzie Seeds forward if they would please to have their opening statements so we can make the most productive use of our time.

A.E. MCKENZIE CO. LTD.

Mr. Chairman: I would like to call the committee to order to review the report on 1987 for A.E. McKenzie Co. Ltd. I would like to ask the Minister for his opening remarks

Hon. James Downey (Minister responsible for the Natural Resources Development Act, A.E. McKenzie Co. Ltd., and CEDF): Mr. Chairman, I would first of all like to introduce the chairman of the board, Mr. Dale Smeltz from Cromer who is with me to my immediate left, Mr. Ray West who is the president and chief executive officer of McKenzie Seeds who has been recently appointed but a long-term employee of

McKenzie Seeds, and we have Mr. Ken Robinson who is the vice president of finance with us as well.

Mr. Chairman, I will just make a brief comment and hopefully we can deal with the report, as they have travelled in here this morning to deal with this Crown corporation.

A.E. McKenzie Co. Ltd. Annual Report shows that once again good progress has been made by the company during its 1988 operating year.

During 1988 the company addressed its long-term future direction with the formulation of an overall company strategic plan. This strategic plan has been unanimously approved by the McKenzie board of directors. McKenzie Company managers and staff have accepted the challenge and the responsibility of securing the company's future through the implementation of a strategic plan. Several facets of the plan have already been implemented or partially implemented and are expected to contribute positively to the company's future growth and development.

Overall, I am pleased that the company continues to make progress and I would like to thank Chairman Dale Smeltz and the members of his board for the sound guidance and support they provide the company management and its staff so that the positive direction will continue to flourish at McKenzie's.

Mr. Chairman, I will ask the chairman of the board for a brief report. Mr. Smeltz.

Mr. Dale Smeltz (Chairman of the Board, A.E. McKenzie Co. Ltd.): Mr. Chairman, Mr. Minister and committee Members, it pleases me to be associated with McKenzie Company as chairman of their board of directors. I know that I speak for my fellow directors in stating that this is a good company with good employees who are working hard to achieve the company's goals. McKenzie employees work extremely well as a team. When you visit the McKenzie Company you will get a very good feeling about the company from an enthusiastic group of employees. This is encouraging for me to see because I know that just a few short years ago it was not that way.

The company has definitely overcome its past problems and is now concentrating on the job ahead. The McKenzie board is pleased with the company's current direction and we are certain the staff has the ability and the dedication to make many more good things happen.

To sum up, I have found McKenzie's to be on sound ground and its employees to have a mission to which they are dedicated. I feel the company will continue to do well in the years ahead. Thank you.

Mr. Ray West (President and CEO, A.E. McKenzie Co. Ltd.): In 1988 the company had a profit of \$294,647.00. This is an increase from the 1987 profit which was 188,301, or a profit increase of 106,346.00. In 1988 the company had an overall increase in sales of \$262,436 and a decrease in its annual operating expenses of \$20,591.00.

The sale of packet seeds for McKenzie represents about 47 percent of its total sales volumes. Packet

seeds unfortunately is a declining market here in Canada, as it is in North America as well as throughout the rest of the world. The packet seed market is shrinking worldwide by about 5 to 6 percentage points each year. We expect that this trend will continue throughout 1989 and 1990 and in fact we see no real reason in sight why this trend will not continue for an extended period of time into the future.

The reasons for this change in the sale of packet seeds are many and varied. Some of these are: there is an increased use of bedding plants, there is an annual increase of about 10 percent per year in bedding plant sales; third generation gardeners, reduction in garden size and gardening activity in each passing of each generation; women in the workforce, more women working than ever before; single parent homes, there are more single parent homes than ever before; the decline of rural Canada, small towns and villages conducive to gardening activities are basically drying up, each year there are more people migrating to metropolitan areas.

Obviously if McKenzie's largest product line is shrinking, the company must find other ways to achieve sales growth. To this end, the company has developed increased sales volumes during 1988 in several other areas, such as spring and fall bulbs, roses and perennials, as well as lawn seed and onion sets. Sales increases in these areas will likely continue into the future.

Also each and every year the company is faced with additional operating expenses, a lot of which are beyond its control. For example, increase in the costs of postage, telephone, taxes, gasoline, printing costs, and travel costs are additional costs that the company must absorb. These increased operating costs, estimated to be in the area of a quarter-of-a-million dollars annually, have been totally offset during fiscal 1988 by productivity gains and operating efficiencies. It might be noted, for example, that McKenzie has an annual payroll of \$3.5 million and an increase of 3 percent. Annual increase here of 3 percent equals \$100,000.00. In recent years, the company has put its house in order.

Basically, McKenzie today is a good company with good people who have proven that they are well-motivated and highly productive. In actual fact, had it not been for the ability of the McKenzie employees to strive and deliver huge productivity gains over the last few years, the company today would not be profitable. The company, however, although it has achieved a lot in recent years, has not yet been able to put a decent profit on the bottom line. This problem, however, is now being addressed through the development of the company's strategic plan. The company's strategic plan calls for sales growth through the development of specialty packet seed lines, both in Canada and also in the United States, plus market expansion into the United States for the company's mail order division.

To sum up, McKenzie profit is up over last year by approximately \$106,000 but still well below where we would like it to be. However, significant increases in future profitability for McKenzie will take time to develop and will likely come from continuing to gain market share here in Canada from McKenzie competitors and

also from the new market expansion for both McKenzie and McFayden into the United States marketplace.

Mr. John Angus (St. Norbert): Mr. Chairperson, I am somewhat encouraged by the reduction of loss that the company has achieved by reducing their deficit. That is a good sign. I have my fingers crossed and I have confidence in the individuals at the table and the employees of McKenzie Seeds to try and make this a viable operation. It is somewhat misleading, and correct me if I am wrong, but I see a debt retirement being absorbed by the taxpayers that would certainly help my company make a profit if I could write off a million, two, in interest payments for the shares.

While it is appreciated that there is sincere dedication and hard work on behalf of the board, I am concerned about what plans they have to tackle their own specific deficit. They have talked in glowing terms about marketing strategy and expanding, and I would not expect them to come to the table in a very pessimistic or negative approach. That would not be worthy of good direction from the leaders of a corporation.

* (1200)

Nonetheless, Mr. Chairperson, I have seen marketing mistakes in the past that have cost them money in opening retail stores in both Brandon and Edmonton, and they have been kind enough to acknowledge those. I see things in their operating statement, such as goods being out on contingency basis, and I am not sure whether the sales reflect the cost of the drawback of product that is not sold, if you like, or does not. I notice that, in spite of looking at increasing their marketing efforts, they are reducing their expenditures in their marketing area. I am not without discouraging the board. I recognize that they have a mammoth task and that they are working very hard, and I give them the utmost support and utmost credit in that area. If possible though, in the limited time we have, I would like to sort of cut through some of that stuff and hear what sort of a three- and five-year plan, what feeling the board of directors, the representatives and the chairman of the board of directors has in terms of attacking this.

It is heavily subsidized. Whether you like it or whether you do not like it, it is a fact of life. I recognize the importance the company plays in the Brandon economy. I recognize that the employees are all working hard and I do not think they are being excessively rewarded. I think it a well-run company and I would like to see Government stay out of it, quite frankly, but at the same time if I was on the board of directors I would be looking at this and saying yikes.

So perhaps just in general comments, either from the Minister of the chairman of the board.

Mr. Downey: In the best interests of time I will try and cover the ground, Mr. Chairman. One thing I am pleased to report and heard from McKenzie Seeds this morning is that they have a debt with the province, a MDC debt which their final payment will be made this end of October, which we will be announcing at the appropriate time, which takes that type of debt off, their operating debt off them, which gives them a little more flexibility.

Let me say as well that I am pleased on two fronts, that they are expanding their market area and market opportunities in the line of business that they are familiar with and are traditional in, both catalogue and the seed industry business; and as well are negotiating on the cost-of-doing-business side of it, keeping a very close watch on that.

My feel about the company, the expansion both into the U.S. market which gives them a market exposure to some 17 million additional people and as well product lines which compliment them in their activities plus some of the reduced costs, will leave them in a pretty solid position. I am comfortable that in the longer term it will in fact enhance employment opportunities and profitability for the shareholder, which is the taxpayer of Manitoba.

Mr. Angus: We all hope for that. Let us hear from the chairman of the board.

Mr. Smeltz: Mr. Chairman, I guess the board's concern over the long-term debt that you have mentioned or raised would be much the same as your concern, that we are concerned about the future of the company. We did take a good hard look at the company's strategic plan over the past year that this present board has been operating, reviewed it and discussed it with management at some length and agree with management that one of the thrusts of the company should be into the market expansion area. We would hope that in doing so with the U.S. market, substantial profits in the next three to five years will accrue to the bottom line.

Beside that, there are other things that the company is managing to do and one of them is controlling the expenses a lot better than they had in the past. This is the sixth year in a row that they have shown pretty decent profits. I think there will be some future announcements made within the next year or so when we get dealing with the 1989 statement sometime in the future, that we do have some more announcements that will be made that will probably reflect more on the thrust of the board over the past year and the future direction that management is taking the company.

Mr. Angus: Mr. Chairperson, let me get a bit more specific. I am not privy to the budget plans or the direction you are taking that you are alluding to. I can only trust that you have those in place and that obviously you feel confident they are going to reap you some benefits.

The control of your expenditures in fact is down \$20,000, '88-87, minor at best, but a good sign, a step in the right direction. The increase in profits can be reflected as a result of the increased revenue in sales. Now, do the cost of sales include consigned goods, items that are out on the retailers' shelves that you have some sort of an agreement to either dump or take back if they do not sell them?

Mr. West: Mr. Chairman, the cost of goods reflect all of the company's modes of selling which includes the consigned or guaranteed aspect to which you refer.

That is fully taken into consideration in the cost of goods stated.

Mr. Angus: So that the \$7 million that you have indicated as a cost of sales reflects that lost opportunity, and I believe that I read in here somewhere that you based that on historical trends as opposed to sort of actuals.

Mr. West: Mr. Chairman, in actual fact it is based on the trends that we have now been able to manage our return levels on the return of packet seeds. In recent years, the company has been able to reduce its return levels from over 50 percent to the most recent year, down around 38 percent in return levels. That is a significant reduction in the returns levels of the seeds that are put out on guaranteed sale. That contributes a great deal to the productivity of the company and it reflects inasmuch as we have been able to hold operating expenses and hold costs of goods. This in light of the fact that we have had inflationary increase in both cost of goods and inflationary increases in operating expenses.

In my opening statement, I indicated that the company is subjected to about one-quarter of a million dollars increase in annual operating expenses, and yet as you see in the annual expenses we have actually reduced operating expenses by \$20,000 of dollars. So that actually is a good thing to see because it reflects the holding of the line and productivity increases considerable in nature, because of the fact that there are inflationary costs that we have to deal with.

Mr. Angus: Mr. Chairperson, I appreciate that because it does not reflect that and oftentimes that is the case that you have been able to not grow the expense side as quickly as it would have if you had not been - (inaudible)- controls and so on and I appreciate that.

Just curious as to whether or not the inventory, and it says see note 5. It may in fact explain it very adequately there, reflects the goods that are on consignment and really this is an accounting-type question. I am a little concerned that they may have reflected in the cost of sales the same as the inventory that they have out in the field that is not sold. I am not as familiar with the marketing of their product in their business as they are, so perhaps they could just explain to me once again. I think we might have gone over this last year too, but if they could explain it to me again how they do that and how they account for that.

Mr. Ken Robinson (Vice-President of Finance, A.E. McKenzie Co. Ltd.): Mr. Chairman, as of October 31 each year, and if you refer to the note on page 2 (g), last paragraph on that note states: "As of yearend, substantially all returns have been processed." For returns which have not been processed as of October 31 which referred to consigned and guaranteed product, I could give you an amount sales value of about \$100,000 cost value on packets under \$12,000.00. We have accounted therefore for the costs of all of the sales that we have in Brandon as well as throughout the customers' locations throughout Canada.

* (1210)

Mr. Angus: Mr. Chairperson, is it fair to assume that the board has given consideration to the United States market as a result of the free trade opportunity, and perhaps they could just enlighten me as to how they are addressing the opportunities that are there?

Mr. Smeltz: The advent of free trade with United States did probably speed up the process of looking at that market and investigating that market somewhat. It was in the company's strategic plan that was done a couple of years ago but it did speed up that process. We found when we investigated it that there was nothing to hinder the company from going to that market. There is probably only going to be positive things happen in the future. That might take five to 10 years to standardize the regulations as far as the seed trade is concerned but there would be nothing previously to hinder us from entering that market.

Mr. Angus: The 17 million people area will probably encompass only the northwest states, Minneapolis, Denver region. Is this an accurate assumption? I mean there is 17 million people in New York, you are not going after that.

Mr. Smeltz: Mr. Chairman, the initial United States market would entail 17 million people in the eight northern states, North and South Dakota, Idaho, Iowa, Nebraska, Minnesota, Montana and Wisconsin. It is largely a rural based population much like rural Canada is with a lot of gardeners making up that 17 million population with only two large cities I think, Minneapolis and Milwaukee.

Mr. Angus: Note II talks about reclassification in order to conform with the 1988 financial statement presentation. Maybe the accountant can—what is that?—it is a \$97,000 figure down from 161,000 a year before and the note is that it is because of reclassification.

Mr. Robinson: Mr. Chairman, the major reclassification that occurred between 1987 and 1988 related to list rentals out of our direct marketing division which in 1987 were netted against expenses. In 1988 they were reclassified and shown as other operating income on the operating statement. We therefore reclassified both years.

Mr. Angus: One other thing I notice on the last page is that you have indicated a loss without good will. I imagine this is direct costs of the closure of the retail stores in 1988 of 136,000, but it seems to only reflect as \$60,000 earlier in the statement. Is there a reason for that?

Mr. Robinson: The note that you refer to that splits out the loss on the retail operations, those particular numbers are included in the operating statement under sales, cost of sales and operating expenses. The only item that is not included in that note is a \$60,000 write-off of good will which is shown on the second last line of the operating statement for 1988, \$60,101, I believe.

Mr. Angus: It is \$60,101.00. I just wanted an explanation as to why it shows up in the statement as \$60,000 in good will here, and the deficit that was indicated by the accumulated losses is 136,000.00. You have said that you have written those off in other areas to reach that. That is the first thing. The second thing is, I notice back here that in spite of the fact that you have only written off 100,000, and that may have been all the good will that was estimated in there, at best it is a catch-as-catch-can type of clause, but you have also reflected someplace in here that the good will is \$100,000.00. Again, I cannot seem to find it exactly now, but I seem to remember reading that in here. Why the difference, why was it down to \$60,000.00?

Mr. Robinson: Mr. Chairman, if you refer to item No. 3 on page 3 of the notes, you will see in that particular classification the original amount of the good will that was purchased in the Robertson transaction was \$150,000.00. Our policy on the amortization of good will was to amortize the good will over a period of 10 years. That being the case, the amortization that is charged normally to the operation would consist of \$15,000 per year. At the end of 1988, there was a four-year unamortized amount for good will that remained, when we made the decision to close the retail operation; therefore, we showed it as an extraordinary item. In actual fact, if you include the \$136,000 loss for the retail operations, plus the \$60,000, the actual charges for the retail loss would be approximately \$186,000 for 1988.

Mr. Angus: The idea is to create good will and build your equity and good will, Mr. Chairperson. Do not let the accountants deal with that, they have got the wrong perspective on the whole thing. You do not write off good will, for heaven's sakes, unless you are trying to get a tax deduction someplace because you do not pay any income tax. I do not know why they would do that.

Mr. Chairperson, on a more serious note, and I do not expect you to respond to that. Has the Accounting Department and/or the board, Mr. Robinson particularly, looked at the potential impact of the GST on their business and on how they are going about doing their business?

Mr. Robinson: Mr. Chairman, I would certainly like to comment on the good will if I could, but the writing off of the good will, the \$60,000, was done first of all because it is a generally accepted accounting principle. If you no longer have an operation, you could no longer carry that asset for it on the books. That is just for clarification purposes.

Looking at the goods and services tax as it affects McKenzie Seeds, I think certainly it is going to be good for the accountants because it is going to create a lot of jobs. It is going to create a lot of records, or some records that we have to maintain that we do not maintain now. The negative impact that we see right now is the fact that, because we are selling on a guaranteed and consigned basis, we will in effect be having to finance some of the tax that we have basically charged customers, and the customers have not paid us until they pay us for that particular invoice.

* (1220)

Mr. Angus: Mr. Chairperson, they do not pay you until they have sold the product and collected the tax themselves.

Mr. Robinson: That is correct.

Mr. Angus: Again, we are dealing in the future and the GST has not been set in stone. But do you have prepared for the board observations, or the board has requested impacts and alternatives, what different strategies might be able to be employed to negate, as much as possible, the negative impact?

Mr. Robinson: Mr. Chairman, we recently attended a brief seminar on the goods and services tax, and at this point have not prepared any documentation to go forward to the board but will do so.

Mr. Angus: Mr. Chairperson, does the board have an audit committee?

Mr. Smeltz: Mr. Chairman, yes, the board does have an audit committee that meets once a year at least and the board has an external auditor, Arthur Andersen & Co. that handles the audit for the company.

Mr. Angus: Mr. Chairperson, do they also look at value for money or operational-type audits as opposed to just the financial capabilities and reporting relationships?

Mr. Smeltz: Mr. Chairman, yes, they do look at the internal company financial picture, and they do make recommendations to the Audit Committee. The Audit Committee meets with the auditors and discusses their concerns with them and brings those concerns back to the board for discussion and then they are further discussed and dealt with by the management.

Mr. Angus: I read recently that Ottawa had allotted in various segments \$100 million to manufacturers of products that were going into export markets. This is a bit after the fact that the money apparently has all been earmarked, it has not all been given out but it has all been earmarked.

In light of the conversations we have had about an export business being developed from a local manufacturing company, I wonder whether or not there have been any applications for any of that money and/or any other like money from Western Diversification Fund and/or opportunities that are being explored. Mr. Chairperson, I am just looking for a degree of comfort that the board is thinking along those line and working that way.

Mr. Smeltz: Mr. Chairman, Crown corporations as we understand it are not eligible for any of those types of grants, the Western Diversification Fund, or the 100 millions that you mentioned. We have done some investigation along those lines and have found pretty near at every turn that there are no funds available to Crown corporations.

Mr. Angus: It is part of the benefit of not paying any income tax.

Mr. Smeltz: I will pass over to Mr. Ashton.

Mr. Steve Ashton (Thompson): I have a number of questions related to what the projections are in terms of, not the fiscal year we are dealing with, but the last fiscal year and also the first two quarters of the current year.

Mr. Downey: The specific question again was?

Mr. Ashton: What are the projections in terms of profits, losses, et cetera over the '89 year?

Mr. West: Mr. Chairman, our year ends October 31, and it is still another couple of weeks before year end and after that it takes about another couple of months to get all the audited financial statements completed, but our expected or anticipated profit for the fiscal year ending October 31, 1989 would be in the range of about a quarter of a million dollars.

Mr. Ashton: In other words, the year that has just been completed is very similar to the previous year at least in terms of the bottom line.

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

Mr. Ashton: You mentioned earlier in terms of the market trends, has that been borne out in the current year in terms of the decline in the packet seeds market? If so, what has been the compensating factor for ending up on the same bottom line? Is it reduced expenditures, is it growth in other market areas, or have you not experienced the type of decline in the packet seed market that was anticipated?

Mr. West: Mr. Chairman, the company did experience the decline in the packet seed market that we are reporting here, but we have been able to offset it because of the implementation of segments of our strategic plan. That happens to deal with the introduction of specialty packets or what we call niche market packets that we have been able to pick up the slack from the decline of the regular packet seeds. So in actual fact, although there has been attrition in the regular packets, there has been sales growth in what we call specialty packets in niche packets which was expected and was part of our strategic plan.

Mr. Ashton: I am not an expert in the industry. I am just wondering what those specialty packages are.

Mr. West: Mr. Chairman, they are more unique in nature and less common, like for example the carrots, beets and radishes and things of that nature. These would be more hybrid developed -(interjection)- Yes, hybrid specialty types of packets and special market types of packets, like Italian packets and things of that nature.

Mr. Ashton: I am sure Members are wondering why I have this interest in this area but, given the greenhouse effect, Thompson may become a prime area in terms

of markets, in terms of the future. We actually have quite a few avid gardeners, so I was quite interested in terms of that.—(interjection)— Well, I do not know if we can get into kiwi fruits. I hope not, because that would change the climate rather dramatically.

I just want to get back to some of the questions in regard to the 9 percent tax and deal with it from a marketing perspective. What would your analysis be of the elasticity of demand for your product? The reason I raise that is because one of the key factors in terms of the impact in any industry or on the service sector with the 9 percent tax is going to be the elasticity of demand. I know some areas, for example, the restaurant industry is very concerned because they feel they have a great deal of elasticity, so the 9 percent will lead to a significant drop in sales. What has your experience been in terms of your various product lines? I realize there may be a difference between the speciality market packages and the basic packages.

Mr. Downey: Just a brief comment to the Member. I know the comment was made on the record that the board are expecting the management team to put forward some comments as it relates to the general sales tax. Maybe it would be important after that work has been done to have some information come to the committee. This area may be one that the Member once looked at. I have no difficulty with it, but I am just trying to deal with the best interests of time in the report that is before us to help the Member out. I have no difficulty with management attempting to answer that, but again I want the Member to remember that we are dealing with the report of '87-88.

Mr. Ashton: My question is in regard to current elasticities. I realize that the board is preparing a report on the 9 percent sales tax. Surely McKenzie Seeds, having been operational for a considerable period of time, realizes the impact of any increase in price, both at the wholesale and the retail level. That was really my question. I think that gives us a bit of a general idea of the impact, which is all we are really seeking at this point in time. So what is the experience in terms of elasticities of demand?

Mr. West: That is an issue that our company has dealt with to some extent, including research, consumer research into this area. It is important to us because we have to know the elasticity of our product line. Basically, Mr. Chairman, we are in a relatively competitive field, and I kind of hate to divulge the findings of our activity here, because we use it for our marketing techniques and our marketing strategies. I can assure the Member it has been looked at in great length.

I can also add that, for example, the price elasticity of specialty packets is less sensitive than the price elasticity of regular packets, if I might just add that.

Mr. Ashton: Which would certainly be an encouraging note, and that is what I would expect. I am assuming your markup is quite a bit higher on specialty packages. In that case, it would provide a bit of a buffering effect. I realize it does not give you, in terms of the questions

of elasticity, a clear indication, because if you are raising your price comparative to somebody else, it is a bit of a different situation than raising price generally. With the 9 percent sales tax, everybody's prices will go up in Canada. I was just trying to get some idea of the impact.

Perhaps we can await that. Perhaps the Minister could provide that information to Members of the committee. I think it is an important matter to be dealing with, because there is a great deal of concern in a lot of industries about the impact it is going to have on sales.

While McKenzie Seeds has had something of a recovery the last number of years, it still is in a—shall we say?—sensitive financial position, even despite the situation this year. It has been a recovery that obviously has been assisted greatly by the provincial Government, not to denigrate the work of the people of the company.

I just want to get in some questions in terms of the financial notes as well and get some explanation for a number of the items. I notice in terms of the listing of assets, the cash and term deposits, substantially over 1987, is that just an indication of the time in which the snapshot was taken at the end of your period? Has there been some change in the company's policy in terms of working capital?

Mr. Robinson: Mr. Chairman, I guess two points somewhat to do with timing, however, if you look at the relative levels of inventory and accounts receivable '87 to '88, you will note that there are significant decreases in that particular area. We have spent over the past four to five years a great deal of effort in developing systems to enable us to control, much better, our inventory, meaning that we can free that money up to use in other places in the company.

As well, we have put a great deal heavier emphasis on collecting receivables than we have in the past, so principally, two parts to your answer.

Mr. Ashton: What would the breakdown be between cash and term deposits in that figure?

Mr. Robinson: As of October '88, principally all of the \$900,000 that is showing would be in term deposits.

Mr. Ashton: So essentially, in terms of the most liquid working capital, there has been no change. The concern I would have would be if you had a large amount of cash on reserve, and the imputed interest cost of maintaining that type of working capital.

Well, you have answered part of what my next questions were going to be in terms of the accounts receivable, the decline in that. What is the situation in terms of the industry practice, what are you dealing with, a 30 day net, 60 day net, 90 day net? How have you gotten the improvement?

The following question is really what are the plans in the upcoming years, do you see any way of getting the accounts receivable down even further than that?

Mr. Robinson: Mr. Chairman, our terms vary from 30 day net on outright products to guaranteed, whereby

the customer pays 50 percent of the invoice 30 days after billing and also on consignment where we do not get paid until the end of season. I think our efforts for 1988 were twofold: first of all, to ensure that we pick up all of the consigned product or principally all of the consigned product before year end, resulting in turning our receivables into cash as of that particular date and also heavier emphasis on phoning customers than we have in the past. For 1989 we have set objectives in our accounts receivable collection department to better the 1988 results by 10 percent, therefore, the objective being that our receivables will come in even though sales will be higher in that area, 10 percent lower than they were in 1988.

* (1230)

Mr. Chairman: The time being 12:30 and traditionally we rise at that point. Is it the will of the committee to sit a few minutes longer and possibly answer all the questions and pass the report? Is it the will of the committee?

Mr. Ashton: We may be able to avoid bringing . . .

Mr. Angus: Mr. Chairperson, we have certainly asked all of our questions on the McKenzie Seeds report and we have no difficulty in passing that report at this time, however, in deference to Mr. Ashton—

Mr. Ashton: I still have a number of questions. I would suggest what we do is perhaps, through consultation with the Minister, we may not need to bring the staff back. If we can leave the report open, I think that would be preferable. If there is any way of avoiding of bringing the staff back, we will try and accommodate it.

Mr. Downey: Mr. Chairman, I appreciate the willingness of the Member to not have to call staff back and his co-operation is certainly very much appreciated. It is not essential that we pass it because every time we have McKenzie come back, as it is working now, we have good news for this committee, so we are more than pleased to perpetuate it.

An Honourable Member: The committee should go to Brandon, Mr. Chairperson.

Mr. Downey: That is a good idea, we could maybe even do that. But, no, it is a committee of the Legislature. We would appreciate passing it now, but I do want to thank the board of directors and the management for coming in this morning.

Mr. Chairman: The report is then not passed at this time.

Committee rise.

COMMITTEE ROSE AT: 12:32 p.m.