



Second Session - Thirty-Fifth Legislature
of the
Legislative Assembly of Manitoba

STANDING COMMITTEE

on

ECONOMIC DEVELOPMENT

40 Elizabeth II

Chairman
Mr. Jack Penner
Constituency of Emerson



VOL XL No. 3 - 8 p.m., TUESDAY, APRIL 2, 1991



MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Fifth Legislature

Members, Constituencies and Political Affiliation

NAME	CONSTITUENCY	PARTY
ALCOCK, Reg	Osborne	Liberal
ASHTON, Steve	Thompson	NDP
BARRETT, Becky	Wellington	NDP
CARR, James	Crescentwood	Liberal
CARSTAIRS, Sharon	River Heights	Liberal
CERILLI, Marianne	Radisson	NDP
CHEEMA, Gulzar	The Maples	Liberal
CHOMIAK, Dave	Kildonan	NDP
CONNERY, Edward	Portage la Prairie	PC
CUMMINGS, Glen, Hon.	Ste. Rose	PC
DACQUAY, Louise	Seine River	PC
DERKACH, Leonard, Hon.	Roblin-Russell	PC
DEWAR, Gregory	Selkirk	NDP
DOER, Gary	Concordia	NDP
DOWNEY, James, Hon.	Arthur-Virden	PC
DRIEDGER, Albert, Hon.	Steinbach	PC
DUCHARME, Gerry, Hon.	Riel	PC
EDWARDS, Paul	St. James	Liberal
ENNS, Harry, Hon.	Lakeside	PC
ERNST, Jim, Hon.	Charleswood	PC
EVANS, Cliff	Interlake	NDP
EVANS, Leonard S.	Brandon East	NDP
FILMON, Gary, Hon.	Tuxedo	PC
FINDLAY, Glen, Hon.	Springfield	PC
FRIESEN, Jean	Wolseley	NDP
GAUDRY, Neil	St. Boniface	Liberal
GILLESHAMMER, Harold, Hon.	Minnedosa	PC
HARPER, Elijah	Rupertsland	NDP
HELWER, Edward R.	Gimli	PC
HICKES, George	Point Douglas	NDP
LAMOUREUX, Kevin	Inkster	Liberal
LATHLIN, Oscar	The Pas	NDP
LAURENDEAU, Marcel	St. Norbert	PC
MALOWAY, Jim	Elmwood	NDP
MANNES, Clayton, Hon.	Morris	PC
MARTINDALE, Doug	Burrows	NDP
McALPINE, Gerry	Sturgeon Creek	PC
McCRAE, James, Hon.	Brandon West	PC
McINTOSH, Linda, Hon.	Assiniboia	PC
MITCHELSON, Bonnie, Hon.	River East	PC
NEUFELD, Harold, Hon.	Rossmere	PC
ORCHARD, Donald, Hon.	Pembina	PC
PENNER, Jack	Emerson	PC
PLOHMAN, John	Dauphin	NDP
PRAZNIK, Darren, Hon.	Lac du Bonnet	PC
REID, Daryl	Transcona	NDP
REIMER, Jack	Niakwa	PC
RENDER, Shirley	St. Vital	PC
ROCAN, Denis, Hon.	Gladstone	PC
ROSE, Bob	Turtle Mountain	PC
SANTOS, Conrad	Broadway	NDP
STEFANSON, Eric, Hon.	Kirkfield Park	PC
STORIE, Jerry	Flin Flon	NDP
SVEINSON, Ben	La Verendrye	PC
VODREY, Rosemary	Fort Garry	PC
WASYLYCIA-LEIS, Judy	St. Johns	NDP
WOWCHUK, Rosann	Swan River	NDP

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Tuesday, April 2, 1991

TIME — 8 p.m

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. Jack Penner (Emerson)

ATTENDANCE - 9 — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Downey, Stefanson

Messrs. Ashton, Cheema, Mrs. Dacquay,
 Messrs. Evans (Brandon East), Laurendeau,
 Penner, Mrs. Render

APPEARING:

Ted Chiswell, General Manager, Manitoba
 Development Corporation

MATTERS UNDER DISCUSSION:

The Annual Report of the Manitoba
 Development Corporation for the year ended
 March 31, 1989.

* * *

Mr. Chairman: I would like to call the committee to order. The committee will be considering the March 31, 1989 Annual Report for the Manitoba Development Corporation.

I would like to ask the minister whether he has any comments that he would like to make or maybe introduce his staff at this time.

Hon. Eric Stefanson (Minister responsible for The Development Corporation Act): I would like to introduce Mr. Marcel Taillieu, who is the chairman of the Manitoba Development Corporation, and Mr. Ted Chiswell, who is the general manager. With that, I really do not have any opening comments.

Mr. Chairman: Thank you. Would the opposition critics have any comments at this time? I hear none. We thank you then, and we would like to open the questioning on the report. Are there no questions?

Mr. Gulzar Cheema (The Maples): Mr. Chairperson, are we not going to wait for the NDP opposition or are we just going to—

Mr. Chairman: We have a quorum, and we can continue the procedures of the committee as we will.

Mr. Cheema: Let me ask a few questions then. I do not want you guys to accuse me tomorrow of not asking a single question.

Mr. Chairperson, I have just gone through this report very quickly and I just wonder if the minister would like to give us some of the details, some of the major objectives they have achieved over the period of this report. What are the major achievements he would like to point out to me?

Mr. Stefanson: Mr. Chairman, a couple of things I should point out. First of all, in terms of the makeup of the board, it is unchanged from last year, and it is provided in the annual report that has been submitted. The current officers of the corporation are Mr. Ted Chiswell, as I indicated, the general manager, and Mr. Alex Musgrove, the corporate secretary.

Under Part I, a substantial portion of the corporation's efforts is directed to administering the ongoing warranty resulting on the sale of Flyer Industries Limited. We believe that the provision for the warranty as of March 31, 1989, which is the financial statements we are dealing with today, is more than adequate to cover any future obligations. The old Part I loans are operating satisfactorily and are being collected in an orderly manner.

Under Part II of The Development Corporation Act, Manitoba Development Corporation administers loans on behalf of several departments, but the majority of them come from Industry, Trade and Tourism.

During the fiscal year, the corporation provided legal consulting, credit administration, interest calculation, loan payment supervision on behalf of those advances. The total outstanding loans, net of allowance, was slightly less than the previous year, and in the 1989 fiscal year, the Communities Economic Development Fund and the Manitoba Development Corporation shared certain overhead expenses common to both corporations.

As I would think most of you are aware, subsequent to year end the Communities Economic Development Fund moved to Thompson, Manitoba, and the Manitoba Development Corporation split off. As the result of these two moves, the total salaries chargeable to the Manitoba Development Corporation will decline.

While I have the floor, I would like to take this opportunity to thank the board of directors for their diligence and knowledge that they applied to assist the Manitoba Development Corporation to experience a very successful year.

So that gives a bit of an overview, Mr. Chairman.

* (2005)

Mr. Cheema: Mr. Chairperson, can the minister or the board of directors or the chairman tell me if there were any funds or loans, guarantees given to Versatile Industries out of this special fund or through this corporation?

Mr. Stefanson: Could you repeat? It was given to whom, Mr. Cheema?

Mr. Cheema: Were there any loans given to Versatile Industries out of the MDC?

Mr. Stefanson: Versatile?

Mr. Cheema: Yes.

Mr. Stefanson: No, first of all, MDC does not make loans. The authority under any of their programs is through I, T and T. MDC administers some of the loan programs on behalf of the department, but during this particular fiscal year there were no advances made to Versatile.

Mr. Leonard Evans (Brandon East): Mr. Chairman, I am sorry I am a couple of minutes late, but I wanted to ask a few questions generally, first of all, about the staffing. How many staff does MDC have at the present time, and could you tell us more or less what their functions are?

Mr. Stefanson: Mr. Chairman, I think in some instances, if it is fine with the committee, I will deflect some of the answers to the two gentlemen with me. Again, this is Mr. Marcel Taillieu, who is the chairman of Manitoba Development Corporation, and Mr. Ted Chiswell, who is the general manager. So for questions that are very specific about the day-to-day operation, I think rather than me being a go-between, I will just turn it over to one of the others. In that case, Mr. Chiswell, could you comment?

Mr. Ted Chiswell (General Manager, Manitoba Development Corporation): Mr. Chairman, at the present time Manitoba Development Corporation has four employees. We have one general manager, one corporate secretary, one administrative assistant and one senior secretary.

Mr. Leonard Evans: I did not catch the total statement made by the minister, but I gather that generally speaking the corporation could be described as in a state of dormancy. I am not trying to be negative when I say that. In other words, what you are telling us generally is that there is very little, if any, activity at the present time by MDC?

Mr. Stefanson: That is basically correct. Under the Part I there are four or five old outstanding loan advances, and under the Part II program, which affects some of the low advanced programs that we have under the Manufacturing Adaptation Program and so on, there is some activity, but there has not been a great deal of activity.

Mr. Leonard Evans: Well, thank you. This is what I had noticed in looking at this report before us, a number of the loans made under the Manufacturing Adaptation Program. Does the corporation simply make these loans based on the recommendation of the Department of Industry, or are these loans analyzed and finally decided upon, as I would imagine they would be, by MDC itself? Does MDC do the research? Does it take any initiative in developing these or bringing them forward?

Mr. Stefanson: No, that is all performed by the Department of Industry, Trade and Tourism, and MDC basically acts as a flow-through and then provides, basically, the administration of the loan program.

Mr. Leonard Evans: Could the minister or the officials advise us what are the state of these loans, let us say, under the Manufacturing Adaptation Program? There are three, five, seven, nine, about 10 of them, I guess, listed here. Are they good loans? Do you have any weaknesses with any of them? Have they created the jobs that they were supposed to create in the first place? Are we satisfied that these loans have been, in effect, positive in terms of stimulating the economy?

* (2010)

Mr. Stefanson: First of all, in terms of those particular advances, as Mr. Evans would be aware, they were made during the fiscal year '88-89. The interest cost on those programs would have been

funded and provided through I, T and T and obviously there was some opportunity to discuss the specifics at that particular time in terms of the advance itself. Now, in terms of the status, these are the advances made during this particular fiscal year. At the end of March 1989, the majority of them would only have been issued for a few months. Subsequent reports will show the status of those particular loans, but certainly in March '89, as I indicate, they all would have been advanced during that 12-month period.

Mr. Leonard Evans: It is not unusual for committees of the Legislature to get into current situations, even though they may be discussing a report that is, you know, nearly a year older or more than a year old. Could the minister or the staff give us some idea, maybe not in detail, whether these loans are working out or are they deficient? Are there any loans that are in default at the present time? This is the Manufacturing Adaptation Program that I am asking about.

Mr. Stefanson: Mr. Chiswell has indicated to me that they are all currently fine at this point in time. There is one that is not current, but the company is not in any financial difficulty.

Mr. Leonard Evans: Oh, well, maybe I will ask the same questions then with regard to the other two categories, the Canada/Manitoba Tourism Agreement Program and also the Manitoba Industrial Opportunities Program. Can the minister advise, can the staff advise, are these loans in satisfactory condition?

Mr. Chiswell: One of the MDC responsibilities is to monitor these loans and ensure that the conditions are met in terms of the original letters of offer. I can tell you, in both cases, the conditions have been met.

Mr. Leonard Evans: The conditions have been met, meaning there are no portfolios that are in difficulty, in so many words. Is that correct?

Mr. Chiswell: That is correct as far as these two loans are concerned.

Mr. Leonard Evans: Can I ask the question regarding Palliser Furniture? This is the biggest item, I guess, \$1.5 million, interest rate 11 percent, 5-year term. The furniture industry has been having some difficulty lately, partly because of free trade I think but maybe also because of the recession. I do not know, but are you satisfied that that particular

loan has fulfilled the original objectives when the loan was made?

Mr. Stefanson: Mr. Chairman, I would have to go back to the original objectives when the loan advance was in fact made. I would certainly undertake to provide Mr. Evans with that detailed information if he so wishes.

Mr. Leonard Evans: Yes. As I gather then, the MDC is effectively not taking an aggressive position, not being utilized by the government as an instrument for industrial development generally. Is that correct?

Mr. Stefanson: That is basically correct in terms of the kinds of questions you are asking. The appropriate time might well be under the Estimates of I, T and T, because I can assure you that our department, in terms of all of these loans and advances, works very closely in monitoring that the goals, objectives, job creation numbers and so on are being met.

Mr. Leonard Evans: Well, fine. What I gather, then, is that the Department of Industry takes initiative in working with industry representatives in looking at opportunities and promoting opportunities, and that, in turn, MDC acts as a banker for these loans, such as in the Manufacturing Adaptation Program.

Mr. Stefanson: That is basically correct.

Mr. Leonard Evans: Could we be advised then, because I was looking at the Annual Report of the Department of Industry, Trade and Tourism? I see that there are—and that particular report happens to be for the period '89-90, which is the year after this one, of course—some approvals made there, so what I would like to know is, could the minister bring me up to date or could the staff bring me up to date, just how many loans are now current under the Manufacturing Adaptation Program?

Mr. Stefanson: Maybe just while I am looking—I am not sure if Mr. Chiswell knows.

Mr. Chairman, maybe I should clarify the question. Was it how many are current, or how many there are currently outstanding?

* (2015)

Mr. Leonard Evans: How many loans do you have currently on the books under this program?

Mr. Stefanson: As of March 31, 1989, there were about 25. I do not have the other information with me here this evening.

Mr. Leonard Evans: Mr. Chairman, so that is almost not quite a doubling of the number that are shown here. You have about 10 here, so now you are up to about 25.

Could I ask the minister, then, do you expect a lot more activity under this program, given your knowledge now of the present situation in manufacturing? Is there a lot of interest in this program? Do you expect to have a lot more loans forthcoming, based on current activity in your department in this area?

Mr. Chairman: I would like to again indicate to the members of the committee that we are dealing tonight with the '88-89 report, and as closely as possible I would suggest that the questions and the issues that we are dealing with should reflect the operations of the '88-89 year of operation. Again I would ask members to reflect on that.

Mr. Stefanson: Mr. Chairman, the simplest answer would be that there is a relatively high degree of interest in the program.

Mr. Leonard Evans: Yes, well I think all committee members should want to see this, because we want to see industrial expansion in this province and we want to see more jobs created in the manufacturing sector and goodness knows we are having enough difficulty as it is.

I would like to ask a question on page 10, Schedule 2, a couple of questions here. This is the Schedule of Equity Investments. Could the minister elaborate or could the staff elaborate on the Small Business Growth Fund - Limited Partnership, which amounted to \$810,000 as of March 31, 1989?

Mr. Stefanson: Mr. Chairman, that is the advance to what is effectively the Vision Capital Fund.

Mr. Chairman: Before we go on, could I ask the members of the committee to come to order? If there are meetings that are going to be held around the table, I would suggest that there are other places that can be made available for those meetings.

Again, we are dealing with the financial statements of the Manitoba Development Corporation.

* (2020)

Mr. Leonard Evans: Mr. Chairman, I wonder if the minister could elaborate on his statement. I did not hear it all, and I am still not clear. What is the Small Business Growth Fund - Limited Partnership with an equity value of \$810,000?

Mr. Stefanson: My understanding, Mr. Chairman, is it was to fulfill an obligation actually made by the previous government, and that it becomes equity in what ultimately becomes the Vision Capital Fund.

Mr. Leonard Evans: I am sorry. I did not hear the last phrase.

Mr. Stefanson: It ultimately becomes the equity in the Vision Capital Fund.

Mr. Leonard Evans: In the Vision Capital Fund?

Mr. Stefanson: Right.

Mr. Leonard Evans: Okay. Mr. Chairman, another question is the allowance for losses, A. E. McKenzie over \$6.6 million. Does that relate back to—I wonder if the minister or the staff can bring us up to date on that. I know this is not a new item. I realize that. I wonder if the staff could bring us up-to-date. As I would gather, the MDC still continues to hold the equity in McKenzie Seeds on behalf of the government, not the Minister of Finance (Mr. Manness), not the Minister of Northern Affairs (Mr. Downey), but the Manitoba Development Corporation, the Minister of Industry (Mr. Stefanson). So I wonder if the—I see this is the same amount as it was for '88, and I know this is historical, but I have forgotten the background of it.

Mr. Chiswell: Mr. Chairman, the allowance is the recording of the losses in McKenzie Seeds to that date, and the policy was to record all losses and not to record profits. As I recall, in the 1989 fiscal year McKenzie Seeds had a profit, so we did not have to increase the allowance from that year.

Mr. Leonard Evans: But you are nevertheless carrying this on your books. Where do you—oh, yes, I see, up above here you have got the preferred shares cost of \$12.15 million in the McKenzie Seeds. What is the equivalent interest cost to the corporation, let us say, currently for that amount of money?

Mr. Chiswell: Are you asking the rate now? It is about 12 percent.

Mr. Leonard Evans: So, in effect, do you consider a cost to the corporation of having that equity of \$12 million, roughly 12 million at 12 percent per annum?

Mr. Stefanson: There would be, obviously, nothing reflected in the financial statement. I mean there is no direct cost attributed to that.

Mr. Leonard Evans: As I recall it, there is some reference in the McKenzie Seeds Annual Report which the Minister of Northern Affairs (Mr. Downey)

probably is aware of. I was just trying to relate the two, because there is a statement in there with regard to a cost to the Treasury of this investment.

Mr. Stefanson: If I recall correctly, Mr. Chairman, from having sat through that committee, I thought the note referred to basically factoring what the cost would be but, again, it was not reflected in the financial statements. It was a note saying that if interest was paid, it would be X amount of money. I believe that is what the note in McKenzie Seeds showed. Obviously, then, on this side, there is no interest income coming in and there is no reflection of that.

Mr. Leonard Evans: Does the corporation play any role whatsoever on the Board of the McKenzie Seeds now?

Mr. Chiswell: No, we do not have any role on the board. However, we do receive quarterly financial statements, which we do analyze and ask questions if there are any unusual items. We treat it as any other loan or investment.

Mr. Leonard Evans: So there is some monitoring of the McKenzie Seeds operation. I would imagine the corporation would also get the Annual Reports of the McKenzie Seeds Company as well.

Mr. Stefanson: Yes.

Mr. Leonard Evans: Basically, Mr. Chairman, is the minister telling us that he and the corporation really do not take any active role in this company whatsoever?

Mr. Stefanson: Mr. Chairman, I am not suggesting that. Certainly, in my short time, I met with Mr. Taillieu very shortly after becoming minister. I understand that it has been past practice that Mr. Taillieu, at least, has met on a regular basis with my predecessor. Clearly they are performing a function on behalf of the government and there has to be communication between us.

As we have already discussed earlier, the kind of function that is being performed is not dissimilar to a financial institution or banking function, and clearly the board has played an active role in terms of the

kind of thing that Mr. Chiswell touched on in terms of the monitoring, the reviewing of the financial data of the outstanding loans and also dealing with the whole issue of the outstanding warranties on New Flyer.

Mr. Leonard Evans: Excuse me, Mr. Chairman, maybe the minister misheard my question. The question related to your relationship to the McKenzie Seeds corporation.

* (2025)

Mr. Stefanson: I certainly as minister have no direct link to McKenzie Seeds, and I think Mr. Chiswell has already indicated the function that Manitoba Development Corporation provides. Clearly there is a relationship, as Mr. Evans well knows. That report comes to this committee, and there is an opportunity for all members to ask questions at that time.

Mr. Leonard Evans: Could I ask the minister, then, Mr. Chairman, if it is a correct observation that MDC and staff are more involved in CEDF-type lending than in direct loans through the corporation itself? I am talking about the function of the staff, and perhaps the board overlaps as well with CEDF, but I am not sure. So I am asking that straightforwardly.

Mr. Stefanson: That would be a fair comment, Mr. Chairman.

Mr. Leonard Evans: It seems to me that there are no major outstanding issues. I gather this is what the minister is telling me: There are no major outstanding issues; he is satisfied with the operation of the corporation both in this fiscal year that we are looking at and at the present time. He sees no difficulties or he has no major problems with the corporation.

Mr. Chairman: Shall the March 31, 1989 Annual Report for the Manitoba Development Corporation be passed? The report is accordingly passed.

The time is now 8:25 p.m. What is the will of the committee? Committee rise.

COMMITTEE ROSE AT: 8:27 p.m.