



**First Session — Thirty-Second Legislature**  
of the  
**Legislative Assembly of Manitoba**

**STANDING COMMITTEE**  
on  
**ECONOMIC  
DEVELOPMENT**

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**31 Elizabeth II**

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*Chairman*  
*Mr. D. Scott*  
*Constituency of Inkster*



MG-8048

**VOL. XXX No. 3 - 10:00 a.m., THURSDAY, 3 JUNE, 1982.**

**MANITOBA LEGISLATIVE ASSEMBLY**  
**Thirty-Second Legislature**

**Members, Constituencies and Political Affiliation**

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Name	Constituency	Party
<b>ADAM, Hon. A.R. (Pete)</b>	Ste. Rose	NDP
<b>ANSTETT, Andy</b>	Springfield	NDP
<b>ASHTON, Steve</b>	Thompson	NDP
<b>BANMAN, Robert (Bob)</b>	La Verendrye	PC
<b>BLAKE, David R. (Dave)</b>	Minnedosa	PC
<b>BROWN, Arnold</b>	Rhineland	PC
<b>BUCKLASCHUK, John M.</b>	Gimli	NDP
<b>CARROLL, Q.C., Henry N.</b>	Brandon West	NDP
<b>CORRIN, Brian</b>	Ellice	NDP
<b>COWAN, Hon. Jay</b>	Churchill	NDP
<b>DESJARDINS, Hon. Laurent</b>	St. Boniface	NDP
<b>DODICK, Doreen</b>	Riel	NDP
<b>DOERN, Russell</b>	Elmwood	NDP
<b>DOLIN, Mary Beth</b>	Kildonan	NDP
<b>DOWNEY, James E.</b>	Arthur	PC
<b>DRIEDGER, Albert</b>	Emerson	PC
<b>ENNS, Harry</b>	Lakeside	PC
<b>EVANS, Hon. Leonard S.</b>	Brandon East	NDP
<b>EYLER, Phil</b>	River East	NDP
<b>FILMON, Gary</b>	Tuxedo	PC
<b>FOX, Peter</b>	Concordia	NDP
<b>GOURLAY, D.M. (Doug)</b>	Swan River	PC
<b>GRAHAM, Harry</b>	Virden	PC
<b>HAMMOND, Gerrie</b>	Kirkfield Park	PC
<b>HARAPIAK, Harry M.</b>	The Pas	NDP
<b>HARPER, Elijah</b>	Rupertsland	NDP
<b>HEMPHILL, Hon. Maureen</b>	Logan	NDP
<b>HYDE, Lloyd</b>	Portage la Prairie	PC
<b>JOHNSTON, J. Frank</b>	Sturgeon Creek	PC
<b>KOSTYRA, Hon. Eugene</b>	Seven Oaks	NDP
<b>KOVNATS, Abe</b>	Niakwa	PC
<b>LECUYER, Gérard</b>	Radisson	NDP
<b>LYON, Q.C., Hon. Sterling</b>	Charleswood	PC
<b>MACKLING, Q.C., Hon. Al</b>	St. James	NDP
<b>MALINOWSKI, Donald M.</b>	St. Johns	NDP
<b>MANNES, Clayton</b>	Morris	PC
<b>McKENZIE, J. Wally</b>	Roblin-Russell	PC
<b>MERCIER, Q.C., G.W.J. (Gerry)</b>	St. Norbert	PC
<b>NORDMAN, Rurik (Ric)</b>	Assiniboia	PC
<b>OLESON, Charlotte</b>	Gladstone	PC
<b>ORCHARD, Donald</b>	Pembina	PC
<b>PAWLEY, Q.C., Hon. Howard R.</b>	Selkirk	NDP
<b>PARASIUK, Hon. Wilson</b>	Transcona	NDP
<b>PENNER, Q.C., Hon. Roland</b>	Fort Rouge	NDP
<b>PHILLIPS, Myrna A.</b>	Wolseley	NDP
<b>PLOHMAN, John</b>	Dauphin	NDP
<b>RANSOM, A. Brian</b>	Turtle Mountain	PC
<b>SANTOS, Conrad</b>	Burrows	NDP
<b>SCHROEDER, Hon. Vic</b>	Rossmere	NDP
<b>SCOTT, Don</b>	Inkster	NDP
<b>SHERMAN, L.R. (Bud)</b>	Fort Garry	PC
<b>SMITH, Hon. Muriel</b>	Osborne	NDP
<b>STEEN, Warren</b>	River Heights	PC
<b>STORIE, Jerry T.</b>	Flin Flon	NDP
<b>URUSKI, Hon. Bill</b>	Interlake	NDP
<b>USKIW, Hon. Samuel</b>	Lac du Bonnet	NDP
<b>WALDING, Hon. D. James</b>	St. Vital	NDP

**LEGISLATIVE ASSEMBLY OF MANITOBA  
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT**

Thursday, 3 June, 1982

Time — 10:00 a.m.

**CHAIRMAN — Mr. D. Scott.**

**MANITOBA MINERAL RESOURCES**

**MR. CHAIRMAN:** I call the meeting to order. This morning we're dealing with Manitoba Mineral Resources. I'll call on Mr. Parasiuk to introduce the gentlemen who are here this morning and will be answering many of the questions of the Opposition and the government members.

**HON. W. PARASIUK:** Mr. Chairman, I indicated in the House that we would be discussing the Annual Report of the Manitoba Mineral Resources. If we get through that, we could discuss the Annual Report of Manfor. Although Flyer was indicated as a third item, I think that was a mistake on my part. It should be MDC, and Flyer is discussed when MDC is discussed, and so that's a mistake on my part and I'll make the correction if we don't get to it which I don't think we will at this Committee meeting. I have Mr. Jones here from MDC, who could speak on MDC, and he has staff who could speak on Flyer, but that's just a change I wanted to indicate.

So starting off with MMR, I'd like to introduce Mr. Anderson, who's the Chairman of the Board, and Mr. Wright who's President.

**MR. M. ANDERSON:** Thank you, Mr. Parasiuk. I'd like to just start off with some brief opening remarks, a copy of which we've passed out to the members. I'm pleased to present Manitoba Minerals Annual Report to this Committee. I'm aware that previous meetings had been addressed by Mr. Albert Koffman who, at the age of 70, retired last July after serving for some 10 years as present Chairman of the Board.

He was a founding member of the company, and guided its affairs from its inception as an exploration group in '71, in a single-room office on Main Street, to its present status as a mining company with an interest in the Trout Lake Mine near Flin Flon. I personally would like to take this opportunity as well, as I'm sure on behalf of you all, to acknowledge Mr. Koffman's significant contribution to mineral resource development in Manitoba.

On Mr. Koffman's retirement in July, he was appointed Chairman of the Board, and the current Board with the exception of myself is as shown on the first page of the report before you. In addition to that, Mr. John Burns served as Director for a few months but has since resigned.

In addition this year, Malcolm Wright, who was also a founding member along with Mr. Koffman of MMR and has served as his Vice-President General Manager for a number of years, has now been appointed President.

I would now like to touch on some of the highlights, and update you a little bit on the operations of MMR. The company's objectives remain the same as those listed in the report.

(1) To start exploration projects that will attract participation by private sector and conversely to participate in worthwhile projects proposed by others.

(2) To manage the province's interest in mandatory participation agreements.

(3) To employ and train Manitoba residents in mining exploration. Presently, the company's main asset is its 27 percent interest in the Trout Lake joint venture. Hudson Bay Mining and Smelting is a part of its contribution to earn a 44 percent interest in the venture. It's spending approximately \$28 million to develop the property into an operating mine. As of March 31st, of this year, Hudson Bay had spent approximately \$23 million. Production is expected to start next month at 50 percent of designed capacity, two months behind schedule but within budget. MMR has been authorized to borrow up to \$2.8 million to cover its share of working capital and additional development costs not covered by Hudson Bay Mining and Smelting's contributions. The mine will be shut down for a five-week period beginning the end of June to coincide with Hudson Bay's announced shutdown of its operations.

Just as an interjection on that, we may have further information after next week as to whether there would be a further shutdown required and we'll discuss that later in the meeting.

The company also holds a small interest in the Pinebay property, south of Flin Flon, which contains a marginal reserve of 660,000 tons grading 2.9 percent copper properties under option to Hudson Bay. Hudson Bay recently completed two deep holes in an attempt to increase the reserve. Results are now being evaluated. In the meantime, Hudson Bay has made a second option payment of some \$60,000.00.

Sixteen projects under mandatory participation agreements, including Trout Lake and Pinebay were active in the period covered by the report. Currently 14 are still active, seven with Sherritt in the Lynn Lake areas and seven with Hudson Bay in the Flin Flon, Snow Lake and Lynn Lake areas. The company contributed \$506,000 to projects covered by mandatory participations in the year covered by this report. However, I'd like to note that this compares with \$403,000 in the fiscal year just ended but not yet reported on; a 20 percent decrease, this reflecting in part reduced exploration expenditures as mining companies attempt to cope with depressed metal prices.

Seventeen of the company's own exploration projects were active in the year covered by the report. Location of these projects is shown on the map at the front of the report. At the time the report was written 14 of these projects were being worked under joint venture agreements while 3 were wholly owned. The wholly-owned project west of Churchill has been completed and abandoned, while the other two wholly-owned projects are now being worked under joint ventures with Hudson Bay and Selco.

Additional work on the McClarty Lake Project south of Snow Lake by Hudson Bay failed to increase the marginal copper reserve of 1.3 million tons grading 2.1 percent copper, but some further work is planned in that area.

We reported that a hole on the Farewell Lake Project south of Snow Lake intersected 2.0 meters of mineralization grading 1.8 percent copper. Eleven holes have been drilled since but the mineralization proved to be erratic and low grade.

Further exploration has been done on the remainder of projects active at the end of March, 1981 but no significant mineralization has been outlined. The company participated in the \$1.3 million worth of exploration at a net cost of \$640,000 which represents a leverage of approximately 1:1. Although the figures have not yet been compiled for this year a similar leverage ration is expected.

On the oil side, the five wells that were jointly owned by the Company and Berry Petroleum in the Pierson area have continued to operate at a loss. Only two of the wells are currently producing and provide Manitoba Mineral with a monthly income of about \$100 through a 5 percent overriding royalty. The three Copperhead wells in the Pierson area jointly owned by Manitoba Mineral, Tundra Trading and Brosco operated at a loss. The Company sold its interest in the project to Tundra and Brosco who wished to use the salvaged equipment elsewhere.

Mr. Chairman, this concludes my opening remarks and am now open to questions from the Committee.

**MR. CHAIRMAN:** Okay, gentlemen, are there any questions to either Mr. Wright or to Mr. Anderson.

The Honourable Member for Turtle Mountain.

**MR. B. RANSOM:** Thank you, Mr. Chairman, first of all I'd like to congratulate both Mr. Anderson and Mr. Wright on their appointments with Manitoba Mineral Resources and also to say a few things about the contribution that Mr. Koffman made to Manitoba Mineral Resources over the years. I know that the corporation was well managed under Mr. Koffman and I certainly enjoyed working with him during the period of time that I was Minister of Mines. As everyone knows Mr. Koffman was not only a shrewd mining man but he was also a very colourful character and one never found their meetings with Mr. Koffman to be dull by any means. We acknowledge the good work that he did and wish him well in his retirement.

I suppose leading from that is the fact that Mr. Koffman was and is such a shrewd mining man, I'd like to go back and review some of the arrangements that have been made with respect to the Trout Lake property and perhaps Mr. Wright will have to answer the questions, because he is the person who is most closely involved in the arrangements that were made.

I'd like to ask Mr. Wright then who actually carried out the negotiations with Granges and HBM&S to arrive at the present arrangements, the present ownership arrangements?

**MR. CHAIRMAN:** Mr. Wright.

**MR. Wright:** It was Albert Koffman, myself and Bob Bray, a consulting mining engineer.

**MR. B. RANSOM:** So, the consultations or the negotiations were solely in the hands of Manitoba Mineral Resources?

**MR. WRIGHT:** That's correct.

**MR. B. RANSOM:** Do you recall, Mr. Wright, any constraints that were placed upon Manitoba Mineral Resources in negotiating arrangements over Trout Lake? Were you simply asked to make the best deal that you could for Manitoba Mineral Resources and for the people of Manitoba?

**MR. WRIGHT:** The negotiations were undertaken under an omnibus agreement between Manitoba Mineral and the Province, which gave Manitoba Mineral a free hand to negotiate the deal. The Minister was kept informed but we've got no feedback on that.

**MR. B. RANSOM:** Hudson Bay Mining and Smelting was able to gain a 44 percent, I believe, interest in the mine through their commitment to the \$28 million of development funds, and then I believe that Granges and Manitoba Mineral Resources took proportional reductions in the ownership positions which they had. I wonder, for the benefit of myself and the Committee, if Mr. Wright could just briefly go through some of the rationale then that led to that kind of arrangement and perhaps even deal with any of the other options that were looked at and obviously rejected.

**MR. WRIGHT:** Well, the basic rationale was that neither Manitoba Mineral nor the Scandanavian Minerals Syndicate were prepared to accept the deal with Hudson Bay, which would have a net result less favourable to them than going on their own, and so it came a question of dividing the increment and the pie as a result of having Hudson Bay do it.

The bottom-line figure on the metal prices we were using indicated that we would be better off on a discounted cash flow basis of reducing our interest from 48 percent roughly to 27 percent having Hudson Bay put in approximately \$28 million and contributing their mill and we would pay for the milling of the ore basically at cost without any consideration of the capital.

**MR. B. RANSOM:** I believe Mr. Wright said that the guiding principle there was that they did not want to accept any arrangement that would be less advantageous than having Manitoba Mineral and Granges go on their own. Is that a correct understanding?

**MR. C. WRIGHT:** That's correct.

**MR. B. RANSOM:** Now, with the prospect of production actually beginning within a couple of months, I wonder now how you view the arrangements that were made, because I think that Mr. Wright is probably aware, as I am sure all the Committee members are, that it has been alleged that this was a bad deal for Manitoba or for Manitoba Mineral Resources, that it involved a needless giveaway of millions of dollars worth of return to the province. I'm just wondering now, even with the benefit of a couple of years of hindsight, whether you, Mr. Wright, whether the Manitoba Mineral Resources still feels that this was a good deal for Manitoba Mineral Resources to make from a financial point of view. Clearly, at the time that it was negotiated, you felt that it was a good deal to make,

that it was better to make this deal than to go it on your own. Would that still be your feeling?

**MR. C. WRIGHT:** That was at the time of the negotiation and has been right through until now, the same feeling that it was a good deal to make. I think that events have probably reinforced it in the sense, as you are probably all well aware, that the metal prices have depressed and Hudson Bay has taken the up-front risk of approximately \$28 million to bring the mine to a 50 percent level of production, just as metal markets have gone to hell in a handcart.

**MR. B. RANSOM:** Just as a matter of interest, how do the prices compare today? How do the copper prices compare today to the prices that were being assumed at the time that the arrangement was made?

**MR. C. WRIGHT:** At the time the arrangement was made, we were using a copper price of \$1.07 a pound; zinc price of 54 cents a pound; gold we were using at \$450 an ounce; and silver at \$10.00 an ounce. Now, the current prices, and these may be out of whack by a couple of weeks right now, were 82 cents a pound on copper; 47.5 cents a pound on zinc; \$394 an ounce on gold; and \$8.60 an ounce on silver.

**MR. B. RANSOM:** At today's prices then, is the mine expected to be making any return at those prices or what would be regarded as a break-even price in today's situation?

**MR. C. WRIGHT:** At the costs that we were forecasting last November and using current metal prices, it looked that the mine could lose between \$200,000 and \$300,000 a month. However, Hudson Bay has gone back, at their instigation, and taken a look at the budget for the balance of the year and feel that they can pare their operating costs and defer some of the development costs, and it looks now that it could be close to a break-even. However, the job is not yet complete and when the analysis was made they used average ore grades and we are now going back and using what we actually anticipate to mine during the balance of the year and we expect to have the numbers by the middle of the month.

**MR. B. RANSOM:** Can I take it from that, that the ore that they're going to be mining is going to be better than average grade then? Is that one of the factors that would allow them to pare the costs?

**MR. C. WRIGHT:** There will be some better and some worse and I'm not sure, at this point in time, whether the worse and better come average, or lower, or higher.

**MR. B. RANSOM:** Are the paring of costs, is that the sort of thing that can be ongoing; is this going to be a continuing efficiency that has been able to be brought about, or is it sort of a short-term thing that's done in reaction to a current situation?

**MR. C. WRIGHT:** Well, the paring of the cost takes place in two areas. One is on the straight operating costs and this is a mining system which Hudson Bay

was not totally used to. This mine was designed, as it were almost by a committee of Hudson Bay and the Scandinavian Mineral Syndicate, and several of the techniques being used have been applied successfully in Sweden and Finland, and so Hudson Bay is a little unsure of what the actual costs we use and we're using a comfortable number. They now feel that they can lower those operating numbers.

The other budgetary reduction is in the development costs, the costs of the openings you have to make underground to get at the ore. Now you can defer a certain amount of that into the future as long as you don't run out of enough feed for the mill, and rather than have too much ore ready to take out, they're going to defer some of those development expenditures.

**MR. B. RANSOM:** How many people are expected to be employed there in that mine, assuming that it was operating at the expected level?

**MR. C. WRIGHT:** Somewhere between 100 and 105.

**MR. B. RANSOM:** Have you any idea roughly what proportion of the ore that's processed by Hudson Bay is going to be coming from Trout Lake, again assuming that they were under normal conditions, if there's such a thing?

**MR. C. WRIGHT:** No, I don't have a number on it.

**MR. B. RANSOM:** What's the expectation on the participation agreements. I just forget the number you said were left, 16 under mandatory participation agreements? Are any of those regarded at the moment as being excellent prospects, or are they ones that are being sort of worked through to conclude a program? Is it possible to make any assessment of that sort?

**MR. C. WRIGHT:** I think basically we have to look at those as ones that we're working through; there are a few smells here and there, but nothing that we can hang our hats on. Unless something is found I expect that they will wind down somewhere between three and four years.

**MR. B. RANSOM:** A question for the Minister, Mr. Chairman.

Could the Minister indicate to the Committee whether any decision has been made at the moment about the funding levels for the Manitoba Mineral Resources in the future?

**MR. CHAIRMAN:** The Honourable Minister.

**MR. W. PARASIUUK:** For this year it's our intention to basically not increase the amount that much and we'll get into this, and it's my intention to spend some time with MMR over the summer.

We have received a very large number of applications, I believe, from companies in the private sector who desire voluntary joint ventures with the government. Rather than just setting out in a sense a pot of money as such and feeling some compulsion to spend that pot of money, the approach I'm taking is that we will go through these applications in a very careful,

thorough manner and make decisions accordingly. If we make positive decisions, then that'll be reflected in next year's Estimates and I don't preclude it, I'm not anticipating it, but I'm not precluding that we could go through a Special Warrant procedure, but at this stage it's certainly our intention to spend some time doing a very careful evaluation of the joint venture proposals that we have received.

**MR. CHAIRMAN:** Mr. Anderson would like to reply to that as well, Mr. Ransom.

**MR. M. ANDERSON:** Thank you, Mr. Chairman. I would just like to add the point that when I took over this year there was a number of projects that we had been considering at MMR and there have been a significant number more that came in, given the time constraints. When the budgetary process was under way the best we could do was to recommend to the government that at a minimum we have at least the sort of status quo budget we had last year. We did then go to the Minister, and it was at my request, and suggest that there were opportunities and we would like to look at further increasing the budget and we would make some recommendations to the government, based on MMR's outlook on some of these projects, as to what sort of funding level we thought was appropriate. So that's where we're at right now and we've got a lot of work to do in that area.

**MR. B. RANSOM:** The policy that the previous government had been following from approximately 1978 was that the participation agreements, the compulsory participation agreements, which the previous Schreyer government had entered into, were all turned over to Manitoba Mineral Resources. They were given the freedom to make the decision about which projects they would continue to participate in, which they might try and sell an interest in or which they might drop completely, and I think all of those things were done in some individual cases.

They also were asked to expend some of their money in trying to find new prospects that could be used to attract private companies that did not have a presence in Manitoba or if they had a presence in Manitoba were perhaps looking for new opportunities, new places to start and that thirdly, the Manitoba Mineral Resources might respond to initiatives taken by private companies as well. I take it then, from the Minister's comments, that is essentially the policy that is being continued by Manitoba Mineral Resources at the moment and that it will be a question of the level of funding that is going to be examined then by the government.

**HON. W. PARASIUK:** I know that MMR has received quite an increase in applications after I made a speech to the Prospectors' Association. The response seemed good and I believe that we received 21 applications or joint ventures since that time. So, we have to do our homework, go through those carefully and when I say we, I'm talking about MMR and the Minister responsible but I certainly intend to use the advice and accept or reject their recommendations as to funding levels. I intend to do that.

I'm actually using MMR in a different capacity with

respect to Tantalum. They sit on the Board of Tanco. I believe that they have some expertise so that's why they are involved there. So, that's the approach that we will continue to take and one thing I think we may be prepared to - and this depends on the quality of the applications - we may be prepared to look at the positive implications of investment in the mineral resource area. I don't know whether in fact there was a big uptake of joint venture agreements on the part of MMR over the last four years, but certainly the Government is not disinclined to make what we think are good investments and when one talks about the mining field it is a high-risk area.

The future implications of Manitoba are great, because mining is a very important industry within Manitoba. That's one of the reasons why I think MMR has been focusing some of its exploration activity or would like to focus some of its exploration activity in the general Lynn Lake area, because that area at present is experiencing some difficulty with respect to the existing mines and we're not quite sure how long Fox Lake will continue. I think that MMR can be a positive instrument in terms of new types of exploration and focusing exploration activity into certain geographical areas.

One of the things that I think we have to look at is the extent to which MMR might be an instrument to have some exploration take place in areas that hadn't been explored too much heretofore. As the technology develops with respect to the geotechnical work that may in fact be a possibility, but I certainly expect to spend some time this summer with MMR. They're doing their analysis of the applications right now and I expect we'll spend some time looking over their recommendations.

**MR. B. RANSOM:** Then it sounds to me, Mr. Chairman, as if perhaps the Minister then is considering giving more direction to Manitoba Mineral Resources in terms of where they should make their investments. I believe it's fair to say that over the past four years, at least, that Manitoba Mineral Resources has been given their own head to make the decisions that were in the best economic interests of the corporation.

Now, the first objective of the company, of course, says that the company will carry out its work within the same framework of rules, regulations and normal practice governing the private sector. Normal practice governing the private sector I would take to be wanting to make a profit for the corporation, to make the best investments that they can.

Are those objectives still going to hold or is the Minister considering using the corporation to direct investment into areas for reasons other than strictly economic ones related to mineral exploration?

**HON. W. PARASIUK:** Not at all, in fact, I have received some tentative indication, early indication, that MMR was seriously looking at applications for joint ventures from areas that possibly hadn't been explored that much to date, and I was going to give serious consideration to that. Certainly, it would be the objective of the Government of Manitoba to ensure that MMR certainly is a positive investment vehicle and would like to make a profit. We certainly don't intend to be spending money in this area or that area for

"political purposes." Obviously, you explore where you think that there are some interesting possibilities in relation to the possible location of minerals.

**MR. B. RANSOM:** Well, that's reassuring, Mr. Chairman. The Minister I believe has said, at least has been quoted as saying, that the government doesn't contemplate returning to compulsory participation in the mining sector and I believe that he is quoted as saying, "for now or for the time being." Could the Minister clarify for the committee just precisely what his policy intentions are in that respect?

**HON. W. PARASIUK:** I think I was quite clear when I explained that to the mining industry a few times. I said that I believed that it is possible for the Government and the private sector to work together and that in the 1980's there probably is a greater disposition on the part of the private sector to voluntarily, indeed sometimes aggressively, seek out joint ventures with government.

I don't think that was the case in the 60's and the 70's there as much. I felt that as our economy evolves that this is probably, and I used this term when I spoke at a session with Mr. David Thomas, who is the President of the Mining Association of Canada, and I've heard no groups really disagreeing with me that we're probably entering into an increased era of joint ventures between government and private companies where people try and share risks; share benefits. I think that possibly was more of an alien concept two or three decades ago, but I think that's changed and my response to date in my discussions in a general way with big and small mining companies, when we just talk about the mining activity generally, has tended to reinforce that feeling. I don't get involved in the specific negotiations with respect to joint ventures, that's left to MMR to do. So, we believe that it is possible to pursue a very constructive relationship between government and the private sector with respect to investment and mining.

I said that we'd sit down from time to time and see how things are progressing. Certainly, if things progress well, if there's a good level of mining investment in Manitoba, then obviously I would continue with this policy. If I felt that in instances there was an attempt to cream, then I'd have to reassess, but I don't think that is the intention of the private sector. I say that and I've said that to them very openly and candidly. They have been candid, I think, and have been speaking in good faith when they've said to me that wasn't their intention. So, on that basis we are going to try and act very co-operatively in this manner over the course of the next four, to eight, to twelve years.

**MR. B. RANSOM:** Mr. Chairman, I'm pleased to hear that the Minister is not contemplating going back into compulsory participation agreements, because I think they were bad from the point of view of what it did for exploration, generally for investment in the province, and I think they were bad from the point of view of investment of the taxpayers dollars. If one goes back and examines the actions of Manitoba Mineral Resources when they assumed responsibility for the 79 mandatory participation agreements in 1978, and examined what they did with those 79 mandatory

agreements, you'll find that some of them were dropped rather quickly because they were assessed as being very poor investments for the corporation.

The government, I believe, funded some very bad risks under the compulsory program because they weren't assessed from the point of view, is it likely to be a good investment? They simply went ahead and funded them. So, I hope that the Minister doesn't return to that level.

I think his other comment, that he intends to continue the present arrangements: I believe he said if there is an adequate level of activity in the province. Well, I would suggest, Mr. Chairman, that there will continue to be an adequate level of activity in the province providing that the Government maintains a competitive taxation system, and an attractive climate for investment. That was not the case in the latter years of the Schreyer administration. There was a taxation regime brought in at that time which was noncompetitive with other jurisdictions in Canada. There was, of course, the compulsory participation aspect which was quite foreign to the private sector.

Consequently, the private sector initiative was falling off, and the government was then in a position to say, well, clearly the private sector is failing in what they were expected to do and the Government is going to have to step in. When we assumed Government in 1977, I believe that approximately 43 percent of all the exploration dollars that were being expended in the province were in fact taxpayers' dollars. If my recollection is correct the total site specific exploration expenditures at that time were in the range of \$9 million, and today they are many times that. The Minister may know the figure, but certainly far, far higher than \$9 million and the percentage of the taxpayers' dollars involved was much lower. I'm sure that if the competitive climate is maintained, and assuming that mineral prices return to some sort of reasonable level for profit making, then we'll see Manitoba continue to have a reasonably bright long-term future in the mineral resource area.

**HON. W. PARASIUK:** I just wanted to add one comment to that. I think in the 1970's, I think it's happened in part in the oil area as well, that companies that had, I think, done quite well in Canada looked outside of Canada for possibilities thinking that maybe the tax regimes were too difficult here, that maybe there was a better opportunity elsewhere and as a result companies like Inco, for example, invested heavily in Indonesia and Guatemala and places like that, because they believed that lateritic ores were a better alternative in the long run than sulphide ores. But lateritic ores require tremendous amounts of energy and these investments have proved to be uneconomic outside of Canada, outside of Manitoba, so there seems to be a greater tendency now for these companies, who had been in a sense burned outside of Canada, to return back to Canada despite concerns that they've expressed in the past regarding taxes and royalties and uncertainty, that the grass wasn't greener on the other side of the fence, in fact, the grass was greener in Canada and I'm pleased to see that.

That seems to be happening in part in the oil industry if I only look at the experience of Hiram Walker when they moved into the United States and I think

purchased something in the order of \$600 million of leases from Mr. Davies in Colorado and found that within a year they had to write off \$200 million of that as a loss and they don't know what the future will be there. In my discussions with the oil industry I found that isn't a unique case, and so the oil industry is, again I think, taking a better look at Canada in order to deal with an area that they're better acquainted with, where they have some experience and I think that'll be an added feature.

I certainly concur with the member when he says that a major factor influencing exploration over the course of this year and next year will of course be the price of metals and minerals. If the price of minerals is low, obviously that impacts on cash flow; if the interest rates are very high, as they are right now, that impacts on the financial viability of borrowing large sums of money to conduct exploration, so right across the board I'm finding that many firms are trying to trim their sails in a sense to deal with the quite severe economic conditions that we find ourselves in right now.

**MR. B. RANSOM:** I take it the sails he refers to are the kind that fly from a mast. Mr. Chairman, I can only agree to some extent with what the Minister has said about external factors, it has to be borne in mind that in the late 1970s it wasn't just the Manitoba Government that was moving to impose very high taxes in the mining industry, it was some of the other governments across Canada as well. It just happened that Manitoba had moved further than some and I would remind the Minister that in 1977 and 1978 mineral prices were very low as well.

I recall the very day that we were sworn into Government in 1977, that it was announced that day that there were going to be reductions of mining employees of some 650 people as a consequence of low mineral prices. Nevertheless, virtually from that day onward mineral exploration picked up in Manitoba, and I say it picked up largely as a consequence of the commitment to make the royalty structure competitive and to go back to systems of holding land that gave the company some security and that the compulsory participation agreements were ended to re-establish an attractive climate for investment, and I think that has paid off handsomely in terms of the amount of exploration that's taking place in the province. We all know that if exploration doesn't take place that we're not going to find the ore reserves that are necessary to maintain the industry over the long period of time.

Mr. Chairman, maybe we could move on to deal with the oil situation. First of all, it was my understanding that in the past Manitoba Mineral Resources did operate both on its own and on a joint-venture basis in the field of oil exploration in Manitoba. Is that a correct assumption, Mr. Wright?

**MR. CHAIRMAN:** Mr. Wright.

**MR. C. WRIGHT:** No, that is not correct and I'm particularly sensitive about this one. Manitoba Mineral simply acted as an agent for the department. The department put together agreements and funded Manitoba Mineral to monitor them. At no time was Manitoba Mineral actively engaged under its own flag

in oil exploration.

**MR. B. RANSOM:** So all of that work, the deals were actually struck by the Department of Mines at the time and Manitoba Mineral Resources were simply used as the vehicle to administer the funds?

**MR. C. WRIGHT:** That is correct.

**MR. B. RANSOM:** Is it within the powers of Manitoba Mineral Resources to become involved in the oil exploration area as it is in mineral exploration?

**MR. C. WRIGHT:** I believe it was, and this goes back several years, when this policy began to evolve, the department getting involved in oil exploration. We tried to get some clarification of the policy and suggested that if the province wanted to get involved in oil and gas exploration that a budget be set aside for Manitoba Mineral to do it, but that never came about.

**MR. B. RANSOM:** Then previously, were some of the funds for oil exploration taken from the budget of Manitoba Mineral Resources as such or did they flow directly from the government?

**MR. C. WRIGHT:** There was one case with Asamera Oil and I think that over a period of two years or so there was \$106,000 of Manitoba Mineral's budget went into that first oil deal; but with all subsequent oil deals we were simply the agency of the department.

**MR. B. RANSOM:** But presumably then, if there was an amount of money budgeted, Manitoba Mineral Resources would have the authority and the scope to hire people and get into the oil business?

**MR. C. WRIGHT:** I think that is correct. I'd have to go back and check the Letters Patent, I guess.

**MR. CHAIRMAN:** Mr. Anderson.

**MR. M. ANDERSON:** Mr. Ransom, at this time, as Chairman of the Corporation, we have discussed whether MMR should be in oil. Their expertise, however, lies in the mineral side and it's not felt at this time that it would be practical. It is not felt that it would be practical for MMR to be without new staff, if we were going to look at it, to be involved in that game. I don't know if you have any comments on that Mr. Wright.

**MR. C. WRIGHT:** I think it's better to keep them both separated.

**MR. B. RANSOM:** I accept what the Chairman says. My statement was that if there were funds available and staff were hired, that Manitoba Mineral Resources has the scope, has the authority to get into that area of work without a new Act being introduced into the Legislature, for example.

**MR. M. ANDERSON:** Could we take that under advisement and bring that back?

**MR. B. RANSOM:** Certainly. Mr. Anderson or Mr. Wright, the oil wells that the government had an inter-



est in that were held by Manitoba Mineral Resources, I believe there were three of them that were sold; all the others are losing money I gather and that the only way the Government is making a return from them at the moment is through the overriding royalty, which really doesn't derive from an equity position in the well. Has the Government, the Corporation, made any decision as to whether they're going to try and sell their interests in those wells also?

**MR. C. WRIGHT:** No, there's no decision been made to do that. We only have a 20 percent interest in those particular five wells that you're speaking of, Berry Petroleum, and they have now been abandoning, so we that we're down to only two producers now, and whether or not they'll break even and make a few dollars, we'll just have to wait to see.

**MR. B. RANSOM:** I'd just like to make one further comment that related back to some of things the Minister said about the greener pastures abroad. I used on a number of occasions an example in terms of the oil exploration in Manitoba as opposed to North Dakota, where in an area in the southwestern part of Manitoba if one mapped the number of wells that had been drilled in an area about 36 miles long and seven miles wide on the border in the southwest part of Manitoba up against Saskatchewan, and took a same area in North Dakota on the other side of the border, one would find that there were about five times as many wells drilled in North Dakota as there were in Manitoba and that there were about five times as many producing oil wells in North Dakota as there were in Manitoba. The former Minister of Mines, the Member for Inkster, used to argue that oil companies went where the oil was and that it really didn't have much to do with the climate of investment.

Under those circumstances, one had to come to the conclusion that either the formation ended right along the 49th parallel or else there was some reason why exploration had taken place in North Dakota and not in Manitoba. When the previous government changed the structures of royalties and leaseholding we began to see exploration take place and I'm pleased to say that right at the moment there are at least three wells being drilled within a few miles of the area where I happen to live at the moment. It's very encouraging —(Interjection)— No, I don't. Unfortunately, I don't have the mineral rights, but I think it's very encouraging to see that when the oil industry in Saskatchewan and Alberta and elsewhere in North America is in such a depressed situation, we are actually experiencing, I think it's fair to say, record levels of oil exploration in Manitoba and activity here.

Mr. Chairman, again I believe that it primarily comes about because of the changes in the royalty structure and the leasing and the attitude towards investment in the province and I hope that the Minister will continue with the policies that are in place. He's indicated that he will continue to put Crown lands up for lease and that he won't give them on a captive basis to any new corporation that might be established. I think if those things are maintained and, perhaps, even if the Minister moved to make some further adjustments in royalties dealing with wells that produced very low amounts of oil, he'd do even more to encourage activity

in the province.

**HON. W. PARASIUK:** I want to surprise the member and say that I think the simplified royalty system is a better system. I said that I believe that people are coming in to make investments that they want to have some longer term idea; they're looking for longer term stability. I've told the industry that. I felt that's a legitimate concern on the part of the industry. I felt that the industry had a legitimate concern about what I would call back-door participation. The response from the industry has been very positive.

One reason why I'm not proceeding with Manoil legislation at this Session is that although many people in the industry have said that they would like to see a catalyst and indeed are interested in joint ventures, I believe that communication's very important and that it's important for me to talk to more of the industry. I believe that more people will come to Manitoba in the future and I intend and I've made arrangements already to spend some time talking to some of the oil companies, especially the junior oil companies in Alberta this year.

One of the attractions for Manitoba isn't just the royalty system, but increased pricing has had some impact there, but secondly, there's a greater probability that companies, drilling in Alberta especially, will strike gas rather than oil. They have a greater probability of striking oil in Manitoba. They haven't found really any real amounts of gas and that oil's the valuable commodity, oil's the one they're looking for, there's a lot of shut-in gas at present, and that's another attractive feature.

So I hope to go into Alberta this year. I'll try and rent or buy a Stetson and go and speak to some of the people, and that's being set up because I think a lot of companies possibly are just looking at the Alberta situation or the Saskatchewan situation and don't have a good enough appreciation of Manitoba.

I've already spoken with a Mr. Hall of Omega in this respect. I've spoken to people in Chevron. They're very positive about that idea and I hope that I'll have a good positive response by other companies in Alberta and tell them that Manitoba indeed is a good oil prospect and does offer very good potential and we'll see what happens as a result of those particular efforts. It's a different type of in a sense trade mission, but I'm hoping that it'll have a good effect on Manitoba in the future.

**MR. CHAIRMAN:** Mr. Downey.

**MR. J. DOWNEY:** Mr. Chairman, the comments just echoed by the Member for Turtle Mountain I would like to add to those comments that were made by him. The development that has taken place in the last probably two years in the southwest corner in the oil fields has certainly been encouraging to residents of that community. I think it's been demonstrated to No. 1, I would think it's very difficult now in the small town of Waskada or the home town that I came from, or in fact vacated farm homes to even get a farm home or a place to live, that the people who are working in those oil fields have added to the local economy, and in fact it is very true that there is virtually no accommodation to rent for that type of people who are now living

in the area.

I think that the fact that we're seeing that kind of activity can only auger well for the previous government's changes in taxation policies and auger very well with the people in that particular community far greater, Mr. Chairman, than the announcements that were heard by those people during the election campaign that there would be a Manoil Company set up to get into the oil activity. They really, Mr. Chairman, were quite satisfied with the speed and the process of the development that was taking place through the private sector and as I indicated not too long ago really weren't standing up demanding of any government to bring in a corporation that would get into the oil business.

I can also identify at least one new local business that was set up in the area to service those oil wells. I think that it only would be advisable for the Minister, if he hasn't done so to this point, to travel into that area. It's totally changed the countryside. The amount of nodding donkeys that are immediately southwest of Waskada; the fact that recently talking to one of the private oil developers in the —(Interjection)— for those who are not familiar with that, but it's pretty evident that the whole taxation policies that are in place have encouraged the development that's taking place.

Another point that has to be made as far as the oil that is being produced in Manitoba is the fact that it is probably the highest crude oil that is being produced anywhere in this country. Not only is it free of gas or natural gas, but it is a fact that the oil is of the highest or the sweetest type crude. I think it's important that when we're looking at the value of it, that it's that much more important to draw the top quality crude and put it on the market at a fair price.

I have a specific question dealing with the operations. The government or the corporation are down to two wells that are currently operating. With the activity that we've seen in other companies and the work that is being done, would it not be advisable for the government or the mineral corporation to assess the wells that have been closed down? Have they assessed them or are they just leaving them idle, saying that there are no more producers or is there no activity that could be put in place to enhance the production? I ask the question strictly as a layman and not truly understanding why there wouldn't be some work that could bring them back into production or there has to be some information available.

**MR. M. WRIGHT:** These particular wells in the Pier-son area which are operated by Berry Petroleum have now been losing money for somewhere around two or three years and various things have been done to them to try to increase their productivity without any success. The Berry Petroleum that has the 80 percent interest has been holding on. They should have been closed down actually a couple of years ago, but they've held on in the hope that there would be breaks to the operator under the National Energy Policy and it's only recently that Berry has made a decision that those wells should be closed down permanently, because they don't feel there'll be any more breaks coming out of the National Energy Policy.

**MR. CHAIRMAN:** Mr. Downey; just before that, if Mr. Anderson could add a comment as well.

**MR. M. ANDERSON:** Mr. Downey, I just wanted to point out that those wells do not qualify for the new oil reference price which is making some of the new development that we've got attractive to producers and if some of the abandoned wells come in after a period of time, they will qualify for the new oil reference price and then they'll be reassessed at that point in time.

I don't remember the number of years, I think it's three. After three years of abandonment, you can reassess them.

**MR. J. DOWNEY:** The Minister wasn't here when I made my comments about suggesting that it would be a good idea if he maybe did make a tour down into the oil fields of southwest Manitoba. He doesn't have to wear a Stetson. However, I'm sure he would be welcome in that particular area, but it would be important - as I indicated the activity with the housing, the activity with the new companies that have developed - to service some of the oil setups that are there.

There's one other point that I want to make with the Minister, and I think I've corresponded with the Minister of Highways and Transportation, that because of the increased oil activity, one has to remember that with all the oil development that is taking place that the heavy loads that are now going over the highways and the roads in that particular area, we have to remember that the oil has to be hauled by tank truck from the Waskada Field, which is something like three, or four, or five miles to the south and west of Waskada, up 83 Highway, down the provincial road 283 Highway, up to 256 and up through Cromer. I live right adjacent to 83 Highway, right along it, and it's quite evident to see the numbers of trucks that are hauling, not only on a 12-hour basis but 24 hours a day, to keep the oil pulled away from it. It is playing pretty heavy havoc with particularly Road 256 that does not have an overlay of pavement or the kind of structure that can support this heavy, heavy haulage.

I think it is a responsibility of the Government, if we want to continually see the development take place, to in fact have a major upgrading of the road system in that community, because it is in fact not only dangerous with the types of roads but the fact that the road base is not built to carry those kinds of heavy loads.

So, I think my general comments are to ask the Minister to support that kind of thing that will support the oil industry and I'm satisfied with that, Mr. Chairman.

**HON. W. PARASIUK:** If I could just comment quickly. I've made some tentative arrangements with regional staff of the Petroleum Branch. I've also had some discussions with some of the oil companies. Different oil companies are doing different things with respect to enhancement of recovery. Obviously, different companies have been doing some new and different things over the course of the last three or four years with respect to new techniques of getting oil out and drilling at different levels.

Again, I think that when you do have more activity you get people drilling at different levels and some-

times I don't call these flukes, but sometimes some of the finds are rather unexpected and then everyone zeros in on that unexpected find and they find a lot more potential than they ever thought might have existed.

So it's my intention to spend some time there, I would hope over the summer. One of the limiting factors, of course, is the duties in the House.

**MR. CHAIRMAN:** Mr. Filmon.

**MR. G. FILMON:** Well, Mr. Chairman, I want to assure the Minister that we'll try and make his duties in the House end fairly soon with the co-operation of the Government, of course, so that he can get out into the fields and in fact was going to suggest that if he is seriously looking for a stetson to rent that my colleague, the Member for Arthur, has quite a fine collection and —(Interjection)— well, that's what I was going to say. There is a limiting factor in terms of size. Actually, after he reads the report card in today's newspaper it might be his proper size. I'm not sure, but he can judge that for himself.

On the other hand, he might prefer rather than considering a stetson, I happen to know that his Leader has a slightly used hard hat that he could borrow for the occasion of wandering through the fields; it has Manoil on it, so it's only been used once, I think, for a newspaper ad. —(Interjection)— He can sing it. Actually you'd probably find that when they're drilling they also use the symbol that you used occasionally. Sometimes they do it this way and sometimes this way. There's quite a lot of symbolism that might fit in with the Minister's visit to the oil fields.

My question to the gentleman from Manitoba Mineral Resources has to do with the Report and unfortunately the pages aren't numbered, so, I'll say under the Oil and Gas Section. Am I correct in saying that the Manitoba Mineral's share of production from the oil and gas wells in which it had an interest last year was \$1,403, that there's no zeros deleted from that, like we do in the Estimates, have three zeros after that?

**MR. M. ANDERSON:** That's correct. It's \$1,403.00.

**MR. G. FILMON:** \$1,403. Okay. Am I also correct in saying that over the years, since it commenced participation in various oil and gas exploration projects, that there were approximately 50 odd wells in which the corporation had an interest over the years or 50 odd wells that were drilled? I shouldn't say wells. I guess they're not wells until they start having something come up, but holes that were drilled?

**MR. C. WRIGHT:** I don't have the number precisely. It's of that order of magnitude. Again though I would emphasize that Manitoba Minerals did not participate in these wells, they simply managed participation in these wells.

**MR. G. FILMON:** They managed the participation in these wells.

**MR. M. ANDERSON:** Mr. Filmon, maybe I could enlighten you on that. The discussion that was held between Mr. Wright and Mr. Ransom concerning how

the department had entered into these particular arrangements and Manitoba Mineral Resources just picked them up as managers; Manitoba Mineral Resources did not make the commitment to go into these particular projects.

**MR. G. FILMON:** Who made the commitment?

**MR. M. ANDERSON:** Commitments were made by the department.

**MR. G. FILMON:** By the department? But it was the government. It's just MMR took it over from the government as well. I know a number of these shifts in terms of responsibility were made. I'm trying to get at the fact that these were ones in which the government initiated a participation. So there were some 50-odd wells or holes that were drilled that resulted in five wells that did have some production, of which two produced an income of \$1,403 and the other three produced a loss for which MMR is not responsible but presumably would be written off against the income of the Berry Petroleum Limited if they did produce something in the future.

Okay, and that the total investment on MMR's part, if we can refer to Exhibit B, Page 1 on Oil and Gas Exploration Expenditures was \$761,364 to March 31st, but as I understand it, that doesn't include all the expenditures of the department over the years in its involvement in the oil and gas exploration. Is that right?

**MR. C. WRIGHT:** I don't know what the department has spent on it. This was the projects which Manitoba Mineral assumed management for and that's how much money was spent under those projects. Whether there were other expenditures by the department, I don't know.

**MR. G. FILMON:** Which projects then are covered under this \$761,364? Just the five wells or others?

**MR. C. WRIGHT:** No, there were several others which are not listed here. There were perhaps half a dozen or more oil and gas agreements resulting in a total of about 50 wells.

**MR. M. ANDERSON:** We could take that under advisement and bring you the details if you'd like? We'll send them to you.

**MR. G. FILMON:** Well, I guess I can understand why the Minister isn't anxious to proceed with Manoil as an exploration entity given the past records of success and return on investment or lack of same.

I just wanted to ask Mr. Anderson regarding his opening remarks in which, on Page 2, he indicates with respect to the Trout Lake joint venture that production is expected to start next month and then later on he says at the end of June that the mine will be shut down for a five-week period. I assume that this was written for May and that he was expecting production to start this month in June and then be shut down at the end of June for the five-week period coincident with the Hudson Bay Mining and Smelting shutdown.

Has that Trout Lake operation commenced produc-

tion then as was projected in his remarks which were obviously written for an earlier time frame?

**MR. M. ANDERSON:** Yes it is expected it will start production and that it will close coincidental with the Hudson Bay Mining shutdown.

**MR. G. FILMON:** Okay. So then is Mr. Anderson saying that it hasn't started yet, but it is still expected to start production sometime this month?

**MR. M. ANDERSON:** It has started. What you have to understand is a figure was picked of 50 percent of designed capacity and I would say that is the point in time at which we deem production to have started. Prior to that there was other production coming out of the mine, but it was not deemed that the mine had been in production.

**MR. G. FILMON:** Okay. Thank you. There's no further questions on that.

**MR. W. PARASIUK:** I just wanted to clarify one comment made by the Member for Tuxedo.

I certainly am anxious to proceed with a provincial oil and gas company. I want to proceed though with the fullest communication with the industry, which I think is a fair way of proceeding, and I think that I'm surprised that the Opposition wouldn't appreciate my wanting to undertake a full process of consultation with the industry. But, in fact, they'd either want me to proceed percipitously or abandon it entirely, I guess those are two different options, but the option we are taking is that we'll proceed and we'll proceed after the fullest consultation with the industry.

**MR. G. FILMON:** Well, I hope that the Minister will communicate to the fullest extent to the public just how beneficial the public dollars have been spent on oil and gas exploration in the past in Manitoba before he proceeds, so that people are familiar with the potential that might occur.

**MR. CHAIRMAN:** Mr. Storie do you have a question?

**MR. J. STORIE:** I don't have any questions. I'd just like to make a couple of general comments and the Minister can respond if he wishes.

First of all, I'd like to say that I have no disagreement with what the Minister has said or what the Member for Turtle Mountain has said with regard to making Manitoba's taxation and royalty rates competitive. We certainly need the involvement of companies interested in exploring and developing our resources in Manitoba and certainly in Northern Manitoba. We need the jobs that they create and we certainly need the economic activity as I said in Northern Manitoba.

However, I feel that the interest and the commitment of the government to joint ventures is something that all Manitobans should be pleased to see. I think that right now the willingness of different companies to get involved in joint ventures is no accident. In fact, I feel that despite the drawbacks of the mandatory participation agreements, I think that the mandatory participation agreements served some purpose. They served notice to those involved in resource develop-

ment that Manitobans were serious about recouping some of the wealth that is here in terms of our resources.

I think in terms of the Trout Lake Mine we have an interest in what will be despite the low metal prices that we're faced with right now, an asset to Manitoba. I think that the Mandatory Participation Agreement means that we have an interest in a mine and we will be accumulating wealth from a resource that we would not otherwise have had. So it has served its purpose.

I think right now we have other factors which are creating an interest on the part of resource development companies on joint ventures or in joint ventures. Obviously, the low mineral prices right now are creating an interest in having other sources of capital to share the risk in development costs and exploration costs so that is an impetus to resource development companies to seek out other venture capital from other sources and if MMR can fill that role, then we'd certainly like to continue with that.

I think in terms of the future, if the willingness on the part of those companies to share in joint ventures with the province is there, that we would like to continue with that. It makes the most sense for Manitobans not only to have the jobs that resource development can create, it makes sense for Manitobans to share in the profits that those resources can create too.

**MR. CHAIRMAN:** I believe if all the questions are finished with the Manitoba Mineral Resources . . . Mr. Harapiak do you move acceptance of the entire report? (Agreed)

Before closing, I would like to thank both Messrs. Wright and Anderson for their participation this morning. It certainly was most beneficial to the Committee and if the members are willing, I believe we are ready to move on to Manfor as well and Mr. Parasiuk would like to ask permission I believe of the members Assembly.

**MR. W. PARASIUK:** I apologize to the Committee and the House, through an oversight on my part, I have not tabled the Annual Report of Manfor. I was going to distribute it — (Interjection) — That's right, I was going to distribute it now.

With the leave of the Committee, we can distribute it here, go over it, and Mr. Hallgrimson can make his opening statement. Or if you wish, given my mistake, then I would table it this afternoon in the House. If you wish, we can not proceed this way and I could table it in the House today or distribute it now, and we could come back on Tuesday on it, but I leave it up to the Committee.

**MR. CHAIRMAN:** Mr. Ransom, would you like to comment on that?

**MR. B. RANSOM:** Well, I think, Mr. Chairman, the Minister should distribute it now and he should table it this afternoon and we'll hear the introductory comments and if we feel we can proceed through, we will; if we don't, it'll be held over.

**MR. W. PARASIUK:** I'll ask Mr. Hallgrimson and his staff to come forward.

**MR. CHAIRMAN:** Mr. Hallgrimson and staff, would you please come forward?

### MANITOBA FORESTRY RESOURCES

**MR. CHAIRMAN:** I'd like to proceed. I would call Mr. Parsiuk to introduce Mr. Hallgrimson, please.

**MR. W. PARASIUK:** Yes, Mr. Hallgrimson's the Chairman of the Board of Manitoba Forestry Resources Ltd. He will be making the presentation. I believe Mr. Torbiak, his assistant, is here as well.

We've gone over the general longer term. The study aspects of Manfor and its future are really being looked at by Crown Investments. We went over that in the Estimates yesterday, but I've asked Mr. Anderson, the Deputy Minister of Crown Investments, who's the lead person on that, to remain here in the Committee area and with that I'd like to ask Mr. Hallgrimson to proceed with his report.

**MR. L. HALLGRIMSON:** Thank you, Mr. Minister. Members of the Committee, as in past years we have prepared a report. The main item included in the report, of course, are the financial statements certified to by Dunwoody and Company, our auditors for the last fiscal year. I would point out that the report includes a clear certification by the auditors; also included is a short report by myself as Chairman of the Board. With your permission I'll perhaps read at least some of the pertinent parts of the report.

I am pleased to report that for the year ended the 30th of September, 1981, sales dollars have continued to rise from \$72,042,000 in 1980 to \$78,556,000 in the year under review. This was not enough, however, to offset increased costs of production, with the end result being a decrease in profit from \$2.6 million to \$670,000.00. On a cash basis, the operating profit of \$9.5 million was sufficient to meet our depreciation of \$5.4 million and pay some \$3.1 million in interest to the Government of Manitoba.

The decrease in the net profit for the past year can be largely attributed to two problems in our Lumber Division. The first is that the lumber market continued weak throughout the year. The situation worsened as the year progressed and as a result our inventory of lumber rose to unprecedented levels at the year end. In fact, our inventory levels rose to a point that made it necessary to shut the sawmill down for a period of four weeks commencing February 1, 1982. Thereafter the operation will operate on a four day week for a period up to 28 weeks under a federal work sharing agreement. The fall in lumber prices was mainly due to high interest rates both in Canada and the United States which has brought the housing industry in both countries virtually to a standstill. In my view, this situation will continue until interest rates fall to what the market considers to be a reasonable level and some stability is attained at that level.

The second reason for the decrease in net profit is our high cost of production in the sawmill. This comes about due to the small sawlogs we have to put through our sawlines. To bring these costs down requires the installation of new sawlines which are capable of processing our small sawlogs at a faster rate. We currently have this matter under study and hopefully this

problem will be overcome in the current year. The impact of the recession did not materially affect the performance of the Pulp and Paper Division until the end of the calendar year. In the last two months there has been a considerable fall off in demand for both unbleached pulp and paper and unless there is an improvement in the near future we may very well face the question of some downtime to stop the growth of our inventories. We may take some comfort in the fact that a possibility of downtime is not something unique to Manfor but common in the industry as most companies are taking such action.

During the year foreign exchange moved significantly against pulp and paper sales in the offshore market. With respect to many European currencies, the Canadian dollar exhibited great strength. For example, the Canadian dollar gained 20.3 percent as against the British pound. Of particular concern to us is the movement of the Swedish Kroner; the currency of the major supplier in our offshore markets. The Swedish Kroner dropped in value, as against the Canadian dollar, by 17 percent during the year. At present the only relief in sight in this market would appear to be a reduction in Canadian interest rates and hence a reduction in the value of the Canadian dollar.

Lumber, being a high weight/bulk product, must be sold within an economic freight area; that is, domestically or the upper Mid-Western United States. In the U.S. the 4.4 percent drop in the value of the Canadian dollar versus the U.S. dollar should have been of significant value. However, during the year there has been such a surplus of lumber production, due to the low level of housing starts, that prices have steadily softened; negating totally the 4.4 percent gain due to the drop in the value of the Canadian dollar as against the U.S. dollar.

A major cost element which warrants comment is freight. In dealing with lumber, paper, and pulp which are high bulk/weight products with relatively low value, a major cost component in the end selling price is freight. During the year freight costs rose on average 14.6 percent on lumber shipments and 18.2 percent on pulp and paper. As a percentage of the net selling price freight costs are presently running at 29.2 percent for lumber and 8.7 percent for domestic sales of pulp and paper. Needless to say we are constantly attempting to concentrate our sales to close in areas and seeking alternative methods of transporting our products.

During the current year-to-date market conditions have continued to deteriorate. We have, however, except for the aforementioned four week shutdown in the lumber division, followed by the shortened work week, which affected 180 workers been able to maintain full employment for our average 1,000 employees. The financial results from operations have shown some deterioration. For the first five months our operating profit was \$2.8 million vs \$4.4 million a year earlier. After depreciation of \$2.08 million and interest expense of \$1.4 million the result is a loss of \$746,000.00. As our ability to provide full employment and show satisfactory financial results is largely dependant on general economic conditions, we cannot at this time make a realistic estimate of the future.

Now, since that time, since that report was written, we did in fact take further downtime commencing May

11th and virtually the whole complex was shut down for three weeks commencing on that date and they've just started back to work this current week, this last Monday, I think that was at the end of period four or five, and we have further updated financial results. This is for the period ended May 8th, 32 weeks; our net profit for that period of time has deteriorated and is now a loss of \$3.4 million.

That completes the written report, I would be pleased to answer any questions.

**MR. CHAIRMAN:** The Honourable Member for Turtle Mountain.

**MR. B. RANSOM:** What would be the actual date of the opening statement, Mr. Hallgrimson?

**MR. L. HALLGRIMSON:** Unfortunately, I noticed this just this morning that there wasn't a date. To the best of my recollection, it would be in mid-March.

**MR. B. RANSOM:** Have there been any changes in the Board of the corporation?

**MR. L. HALLGRIMSON:** No, not really, Mr. Chairman, except that Mr. Burns and Mr. Ducharme, who hadn't attended a meeting for a considerable period of time, were removed from the Board last April.

**MR. B. RANSOM:** Could you just name the present members of the Board?

**MR. HALLGRIMSON:** The present directors are Mr. E.J. Friesen, Mr. B. Garth Chambers, Mr. M.K. Profit, J.D. Riley, J.R. Wright, Hugh Jones and myself.

**MR. B. RANSOM:** Perhaps, Mr. Chairman, Mr. Hallgrimson or Mr. Parasiuk could provide us with some of the details that have been worked out with respect to the work sharing arrangement that's now in place.

**HON. W. PARASIUK:** We had originally established a plan for a four-month work sharing arrangement, but we indicated that would have to be reviewed in the light of our continued financial situation. Two months into the work sharing program, we felt that for financial reasons we had to shut down the plant, which we have done, and what we are looking at now is a different alternative. We're having some discussions with the Federal Government for a program whereby people who are laid off could get something more than UIC, but not what they would be paid if they were working full time, to undertake a forestry management activity largely in The Pas area, it will certainly be in the bush camps.

There are some problems being encountered in trying to develop specific projects under the general program. We're breaking new ground in this area. I believe that the Department of Natural Resources is taking the lead in this respect in that they are trying to develop a project, specifically in Moose Lake. We think that there probably would be a better possibility of getting a project started in Moose Lake because the people who are laid off there are woodcutters in the first instance generally. They have some of the equipment, they have the clothes, they're living in that

area generally and it wouldn't be that great a disincentive for them to get involved in this type of project.

In The Pas, it's a somewhat different story. You have people who were sawmill operators or people who are working in the pulp . . . well, basically the sawmill, who would be asked then to become tree thinners and things like that. We think that if we can get one project going so that people can actually see how it's going then possibly they will take up and develop other projects as well. But that is still in the process of negotiations.

The Department of Natural Resources is the lead department in that. We, of course, have an ongoing interest because of the fact that these are workers from Manfor or related to Manfor and our hope is that we can develop these types of programs to take into account the down cycle that takes place with respect to mining or lumber, especially, so that we can try and provide ongoing work of some sort to keep people in these single enterprise communities, so that when economic conditions change with respect to the high interest rates and the recession that we would still have a workforce on hand that is skilled, that is experienced, that knows that area, to work for us productively when the upswing takes place.

**MR. B. RANSOM:** Mr. Hallgrimson made reference to installation of the new sawlines, and when we were discussing the possibility of upgrading of the mill or the operation in Estimates, the Crown Investments Department, there was reference made to a \$5 million to \$10 million cost related to upgrading the sawmill. Would that be the approximate cost then of putting in new sawlines, \$5-\$10 million?

**MR. L. HALLGRIMSON:** Yes, I think that would be fair. It depends upon whether you're talking about replacing both sawlines or just one. We have, in the past, I think, used the figure of about \$4 million for one sawline. If the sawlines were completely replaced it would be around \$10 million or so.

**MR. B. RANSOM:** What sort of impact would that have, then, on the costs in the sawmill area in terms of reducing, I assume, the costs of production?

**MR. L. HALLGRIMSON:** I don't have the exact figure with me but what sticks in my mind is 15 to 20 percent.

**MR. B. RANSOM:** Mr. Chairman, the former Member for The Pas used to frequently ask us if we would not give some consideration to appointing some of the employees, some of the union people, to the Board of Directors of Manfor. They thought that this would be a place to begin an experiment in economic democracy. Has the Minister any intention of doing that at the moment?

**HON. W. PARASIUK:** Yes, over the long run, I hope to do so. We have established a committee of workers, of management and people from Crown Investments, who have been looking at the various options regarding layoffs, who have indeed been looking at the various options regarding the long-term development of the Pulp and Paper Complex and the Sawmill. I think there was surprise on the part of all parties at the

various options regarding all parties, I think, in a very responsible manner, to date, in these very difficult times of lack of demand for product, layoffs, etc., and at the same time people have been forward-looking to try and establish the best long-term prospects for that complex. Today, I think that the experience at a working level, not a board level but at a working group level, has been very good from my vantage point. I believe that often these things are matters of communication and that the communication process has improved as a result of this. I want to monitor how the working group proceeds. I'm aware that there are pluses and minuses to having appointments to the Board, in a sense, people who are employees but at the same time I think that we want to give this matter a bit more thought, that the pluses will outweigh the minuses and that people who have some very detailed knowledge and experience of the operation can indeed make very valuable contributions on the Board.

**MR. B. RANSOM:** Mr. Chairman, because we on this side, when we were in Government, were actively involved in looking to the future of Manfor, as I know the Minister is presently. I don't see the necessity of getting into some of the details of that here, especially since we have had an opportunity to discuss it in the Estimates of Crown Investments Department, so my colleagues may have some additional questions. I basically have no further questions to ask here.

**MR. DEPUTY CHAIRMAN, G. Lecuyer:** Mr. Brown.

**MR. A. BROWN:** I would like to ask a few questions regarding the lumber industry and maybe we can get some answers on this from Mr. Hallgrimson.

First of all, I would like to know how much inventory do you have in stock at the present time as far as lumber is concerned? Have you any idea?

**MR. L. HALLGRIMSON:** I think after taking into account what we have sold that the net figure of finished lumber in inventory is around 5 million, plus around 2 million unfinished or unplanned lumber, so it would total about 7 million.

**MR. A. BROWN:** Where would this be stored? Is most of it stored at the plant over there or is some of it stored in Winnipeg?

**MR. L. HALLGRIMSON:** Yes, we have some lumber here in Winnipeg. We have a storage facility where we trans-ship lumber into the U.S. and, of course, other areas in Canada. We also have lumber in the mill at The Pas.

**MR. A. BROWN:** Do you ever do a quality comparison between the lumber from Manfor as let's say for instance Saskfor and lumber coming from the Grande Prairie area? The reason why I'm asking this is we use a fair amount of lumber in the industry that I'm involved with. I was wondering why we didn't use more Manfor lumber. I saw that as only the odd shipment that we get of Manfor lumber, and most of it is lumber from Grande Prairie and Saskfor. My general manager tells me the Manfor lumber is quite an inferior quality, I believe that the price is the same as the

other, but it's inferior quality to the others. In other words, if they don't use the Manfor lumber immediately, it's going to twist and warp out of shape so that they cannot use it at all. Whereas, the other lumber seems to not have that particular characteristic, at least not nearly as bad as what the Manfor lumber has.

Now, first of all, I would like to ask, are you kiln drying your lumber or why should we have this particular problem?

**MR. L. HALLGRIMSON:** Well, I wouldn't accept those statements as being valid. Our lumber is kiln dried. I'm sure it's as good a quality as any other lumber in Western Canada and in Northern Canada particularly. As far as its inferiority or that it's inferior to, that I do not accept either. Everything I've heard is that it's fairly standard quality. I don't think we have to take a back seat to anybody in that respect.

It's a very competitive market. There's lumber that flows through Winnipeg from the coast and other places. There's no way that we could just capture the whole local market. That is, as long as we're competitive, we should get a fair share of it; I think we do. There's no way that we could necessarily insure that all lumber bought in Winnipeg came from Manfor.

**HON. W. PARASIUKE:** Maybe I could just add one point here and maybe ask for a bit of clarification from Mr. Hallgrimson, because I've had the same concerns that you've had, especially about seeing lumber from other provinces or other places in Manitoba. When I asked about this I was told that often some of the large operations, the large retailers or even some of the large wholesalers in a sense, look for a complete line of lumber.

Even our saw logs - we don't offer the same wide line of lumber that other sawmills can offer, so it's difficult capturing the entire market when these people I guess want to protect their ability to get a wider line of product. I believe that is one of the constraints that we in Manitoba operate under, largely because of the size of our logs. Is that correct?

**MR. L. HALLGRIMSON:** That's correct, Mr. Minister. Yes, that's quite true. We make certain sizes and then this doesn't necessarily represent the full spectrum of sizes that are required.

**MR. A. BROWN:** I realize that, Mr. Hallgrimson and I know that you're not manufacturing plywood and there's all kinds of materials which you do not manufacture at Manfor. I would like to be in a position though where I would like to tell my fellows in the industry that we're in and with all the studding that we are using it in our industry, I would like to use Manfor lumber. I cannot do this unless my people are happy that the quality compares as well as what it does with Grande Prairie and with Saskfor.

Now, my question to you is, have you ever done a comparison in your own way in trying to determine what the cause would be, because my fellows very definitely say that unless we process Manfor lumber immediately, as soon as it was taken out of the bundle, we can't use it; whereas the other lumber doesn't have those characteristics to the same extent. Now, some of the problem may be because the logs are thinner

than what we're using over here than certainly what they are in Grande Prairie. That maybe would be one of the causes for the twisting and the warping. I don't know.

I would like you, if you could, to address yourselves to that particular problem and see if there is something that you can come up with which would improve the quality of the lumber.

**MR. L. HALLGRIMSON:** Well, if you would be prepared to give me the name of the individual, I'd be pleased to have our salespeople contact him and look into this matter. As I say, we sell a lot of lumber and maybe not as much as we would like, but we certainly sell a lot of lumber locally and there are very satisfied customers. But, it may be that your company or the company that you're referring to or the yard received some lumber, and occasionally there are reasons for variance, but I would suggest that the way that I would like to have handle this would be for our salespeople to speak to them.

**MR. A. BROWN:** Well, I'd be very glad to give you the names of these people so that they could come out there and take a look at the problems that they're experiencing with this particular lumber.

**HON. W. PARASIUK:** I just wanted to add, what I'll try and do frankly, and I can't give a definite date but certainly I intend to do so this year, maybe in the winter or maybe next year, I think it would be of some value to give the members an opportunity to go up and take a look at the complex out there. I have certainly found it very interesting from the perspective of the Minister and I think that the Legislature itself would find that interesting.

I can reflect to a comment made by the Member for Virden where he said that the Legislature should try and make the Crown Corporations more accountable. What helps in that respect is better knowledge. I think that often what's useful is firsthand knowledge. The kilns are there, they're very modern kilns. I think it would be good to take a look at that and again, given pressures of time and everything, I can't make a specific commitment as to date, but it certainly would be my intention that within a year that I'd like to give Members of the Legislature the opportunity of seeing that complex.

**MR. A. BROWN:** Well, that certainly would be appreciated, Mr. Chairman. It's one complex that I never have visited. I've never really been at the complex. I don't know what your processes are over there and I certainly would enjoy going out there to see the complex.

I have no more further questions. I think that under the circumstances Manfor is doing probably just about as well as it possibly could. We realize that sales are very slow in all areas.

I have no more questions.

**MR. B. RANSOM:** I just wanted to ask, Mr. Chairman, what's this date of the collective bargaining agreements, when do they terminate, bargaining under way, etc.?

**MR. L. HALLGRIMSON:** Yes, our agreements are for two years and we have a full year to go on our agreements.

**MR. B. RANSOM:** Are the agreements with both unions, is the timing the same?

**MR. L. HALLGRIMSON:** The Pulp and Paper Division agreement with the CFU expires on the 30th of November, 1983 and the Woodlands and Lumber Division agreement expires on the 31st of August, 1983.

**MR. DEPUTY CHAIRMAN:** Any further questions?

**MR. H. HARAPIAK:** I move that we accept the entire report.

**MR. DEPUTY CHAIRMAN:** Is that agreed? (Agreed)

**HON. W. PARASIUK:** Before Committee rise, I'd just like to inform the Committee that we'll be meeting on Tuesday to consider the reports of MDC and Flyer's report just came out, we didn't have enough copies, I'll be tabling it tomorrow in the Legislature so that members will have a copy to look it over the weekend before we meet on Tuesday.

**MR. DEPUTY CHAIRMAN:** Committee rise.