

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Tuesday, 18 June, 1985

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba.

CHAIRMAN — Mr. S. Ashton (Thompson)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Cowan, Harapiak, Kostyra, Hon. Mrs. Smith, Hon. Mr. Storie

Messrs. Ashton, Enns, Harper, Graham, Johnston, Ransom

APPEARING: Murray O. Harvey, Chairman of the Board

J.B. Sweeney, President and Chief Executive Officer

MATTERS UNDER DISCUSSION:

Manfor - 1984 Annual Report

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CLERK OF COMMITTEES, Ms. T. Manikel: Committee, please come to order. Our former Chairman, Mr. Santos, is no longer a member of this committee so we must elect a new Chairman. Are there any nominations?
Mr. Kostyra.

HON. E. KOSTYRA: I would nominate Mr. Ashton.

MS. CLERK: Are there any further nominations? Seeing none, Mr. Ashton, would you please take the Chair?

MR. CHAIRMAN: May we have a statement from the Minister?

HON. J. STORIE: Thank you, Mr. Chairperson.

By way of opening statement, the Clerk of Committees is passing out a statement for members and others.

Mr. Chairperson, I wish to share with the committee a few remarks which briefly highlights the activities of Manfor Ltd., since we last met, to review its operations.

During the year under review, the company was called upon to meet a number of significant challenges in terms of modernization of the company's physical plant facilities at The Pas; maintaining a strong, permanent position in a highly competitive international forest products industry; managing and developing the company's human resources; and reducing the company's operating losses while working towards long-term commercial viability.

Programs and efforts mounted to meet these challenges by management and staff were not without their frustrations and, in some instances, less than fully

satisfactory in the actual, compared with anticipated results. Management and staff, for example, are less than enthusiastic in having to report a net loss for the year of \$9.387 million. They ought, however, to be proud of their significant accomplishment in substantially reducing the company's losses by \$15.361 million from the previous year. This represents an incremental improvement in the financial performance for the company which has not been achieved in any of the previous 10 years of the company's existence.

Last year we reviewed with this committee in some detail the company's goals and philosophy statement and Manfor's strategy for corporate recovery, being mounted around the three "R's" of retrofit, reorganization and recapitalization. I will not dwell in detail on these at this time, save to emphasize that progress in all these areas simultaneously over the past year and continuing in the current year is satisfactory and bodes well for Manfor's future.

The retrofit or modernization program, while not finalized in the fiscal year under review, proceeded well and is being completed in the current fiscal year. The modernization of the pulp and paper mill has been a success in terms of timely completion and meeting the targeted quality and increased productivity objectives. The rebuild of the company's sawmill experienced some delays in completion, but it appears that the completed sawmill will reach its target of design capacity by the end of this summer.

But again, as we emphasized to the committee last year, the dynamic nature of the forest products industry emphasizes the need for a continuing adaptive ability on the part of companies hoping to remain successful in this sector. For Manfor's part, the modernization program was but one link in the number of interdependent factors which require constant vigilance and effort to ensure market penetration/maintenance, and minimal production costs - both factors are key to the sound financial performance and stability of employment and income generation, both locally and throughout the province.

In order to minimize the company's vulnerability to a totally uncontrollable international market situation, all levels of company's management and staff have been involved in a cost-cutting program geared to attempting to have Manfor's production costs kept to a minimal level, so that in times of even poor markets lower manufacturing costs will allow financially attractive sales of our products. I expect to learn of very positive and innovative recommendations arising out of this and look forward to sharing with committee members next year, the results of the implementation of agreed upon recommendations.

Manfor Ltd., with 1983-84 sales of almost \$74 million, direct employment of some 800 workers and a payroll of \$33.2 million, is an important component of the provincial economy and will remain so for many years to come. As a Manitoban and an elected representative from a Northern constituency, I recognize and applaud

the substantial contribution Manfor makes to the local and provincial economy. As a Cabinet member with responsibility for Manfor, I have every confidence in the positive future of Manfor and the success of its operations. The efforts already under way and those yet to be mounted will, I am satisfied, allow the company to experience even a greater financial turnaround than was recorded in the year under review. This government and myself, as an elected member of the Legislative Assembly, are committed to the continued operation and success of Manfor as a positive major influence on the provincial and local economies.

That's by way of opening statement. I'd like to introduce to the committee, for those who aren't familiar with the two gentlemen on my left, the Chairman of the Board, Mr. Murray Harvey, and the Chief Executive Officer, Mr. Jack Sweeney. Also with us today, in an advisory capacity are Mr. Allen Bourgeois, the Director of Marketing and Mr. Derek Betts, the Director of Finance.

Open for questions.

MR. CHAIRMAN: Perhaps before getting into the questions, what is the wish of the committee? Should I proceed page-by-page through the report or what's the verdict?

MR. CHAIRMAN: Mr. Gourlay.

MR. D. GOURLAY: Mr. Chairman, I have a number of questions and I'm sure other members of the committee have questions dealing with all aspects of the report. I would hope that we could do it in that fashion and then at the end, pass the report.

MR. CHAIRMAN: All right, perhaps then we will proceed to general questions.

HON. J. STORIE: Mr. Chairman, we have traditionally been quite informal and I think we'll have to deal with all of the questions, one way or another. I think we should just proceed with the questions members have.

MR. D. GOURLAY: Mr. Chairman, normally we receive a report from the Chairman of the Board. Is that not going to be made this year?

HON. J. STORIE: Mr. Chairman, if Mr. Harvey has anything to add, he is certainly prepared to do that.

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: Mr. Chairman, I think it's traditional for me to go over the letter in front of the Annual Report and I will do so now if that's your wish, disregarding the first paragraph, which is merely a transmittal paragraph.

The company year 1983-84 saw some major changes for Manfor Ltd. Work was well under way in two major retrofit projects. Significant market changes in the price of pulp and paper had allowed the company to surpass its objective of cutting the previous year's deficit in half.

By December 1984, the price of market pulp had slumped and there was downward pressure on paper

prices. These developments, while not in line with the company's 10-year projection, confirmed the absolute necessity of Manfor developing a new product, Superior Performance Kraft, and achieving a niche in that specialty market. The company is particularly vulnerable to market forces, and changes in product prices have a double-barrelled effect on the company's bottom line. This fact is central to the company's short-term recovery initiatives. The company is determined to continue to reduce its operating deficit even though that means some developmental plans may have to be moved forward in time. Establishing a sound track record maintains a first priority.

The company remains committed to an initial market strategy which will see it obtain and hold a portion of the North American multiwall market. This will serve as the company's "bread and butter" account and will be the foundation upon which the company will build.

The forest products industry is not enjoying the recovery to the degree that other manufacturing sectors are. Markets remain turbulent and significant international events, including unforeseen currency realignments are occurring which may have the effect of changing the face of the forest products industry forever. However, these are the hard realities of markets faced by this company. They require us to work harder and work smarter.

Market forces can only be addressed and with some diligence, anticipated; they cannot be controlled. Only costs can be controlled. We expect some considerable cost improvement as the result of the retrofit but new and innovative ways of controlling costs will have to be the next chapter in the company's history if this firm is to survive. Accordingly, an intensive analysis of cost reduction possibilities over both the short and long term has been under way for several months.

At this time, it is also appropriate to acknowledge the continuing contributions made throughout the year by all Manfor employees. The dedication, support and participation makes the achievement of Manfor goals possible.

I remain confident that given reasonable markets and continued shareholder support in the tough days ahead, Manfor will survive into the forest products' world of the future.

MR. CHAIRMAN: Mr. Ransom.

MR. B. RANSOM: Mr. Chairman, I had been able to read that statement that Mr. Harvey just read because it appeared with the Annual Report of Manfor. Traditionally, we have received a statement from the chairman giving us an update because the report that we have before us is for the year ending September 30, 1984. It's not much more than three months now until the end of the fiscal year that we are in. Traditionally, in this committee and in the Hydro committee and other committees, we receive an update because we're dealing with the report that really is historical to quite an extent now. We do have some fairly positive achievements in this report and some fairly positive statements from the chairman and from the Minister. I think the committee would appreciate receiving an update as to where we're at as of June 18, 1985.

Tuesday, 18 June, 1985

MR. M. HARVEY: Mr. Chairman, through you to Mr. Ransom. In my short term as chairman I have done that traditionally. I am prepared to talk about the situation as it stands today. It's indicated in my letter in the Annual Report.

Markets for pulp and paper have not recovered to the extent that was anticipated, in fact, after several years of five-year cycles, there has been a slump in the market. Significantly, this took place inside of two years. The basic situation worldwide seems to have considerable effect on our products. Several years ago, Sweden devalued its currency and that's allowed it to do some things in the European market which has caused some of the exporters in Canada difficulty and they are coming back into the North American and even the Canadian market.

The strong American dollar causes American manufacturers difficulty in selling offshore and pushes them also into the North American market, particularly the American market. We have had significant difficulty as evidenced by our announcements of shutdown in maintaining both price and volume. If this situation is to continue over the next five periods that we have left in our operating year, then our fortunes will be basically much worse than they are at the moment - the year under review, I should say.

We don't expect any immediate relief, although there have been some significant changes that I'll talk about in a moment. If things are to continue the way they are at the moment, then we could anticipate a loss in the order of \$17 million to \$18 million in this current year.

Now, it seems to me, that the difficulty in the forest products industry generally is basically too much productive capacity. That is why Manfor deliberately embarked on a strategy that would take it into a specialty market. That market is multiwall market which is the paper used in producing multiwall sacks, cement, feed, those kinds of things.

We have very recently heard that our major competitor in the United States has announced its intention to get out of the stress kraft market. They have been purchased by a fine paper company. You would remember it as St. Regis, now Champion. That frees up approximately 250,000-300,000 tons of what they call stress kraft which is a similar product to our Superior Performance Kraft in the market. At the moment, that announcement is not going to do us much good in the short term because of the fact that they'll continue to produce for the next 18 months and may even lower the price in order to hang on to the customers that will be looking forward new places to buy. We have some early indications of orders coming our way as a result, but in this particular fiscal year, we don't believe it's going to help us very much.

It is, at least, one of the things that needs to happen and that is the amount of productive capacity in the brown paper industry is being lowered which gives us a wider market opportunity than we had originally anticipated. So that's the situation as we see it at the moment.

With respect to the technological improvements, the pulp mill has met all the expectations. We've even got a bit more productive capacity than we expected. I think we were expecting an 8 percent improvement and got something like a 12 percent improvement. The sheet

is being well received even though the market as to volume in price is not that great. The sheet is being well received by the people who have had it out into the field and tested it and those are all positive signs. Unfortunately, they won't impact on us this fiscal year.

On the sawmill side, we are now operating in automatic mode. We've got the majority of the computer problems beat. We're backup on two shifts, I think, this week; and the planer mill will be starting up momentarily, so that basically brings us up to where we are.

We have some improvement in the order book, starting to move back towards a more comfortable level of days of production, but it's not going to be there, we don't think, in time to allow us to avoid the July shutdown. Once we get into a shutdown mode there are certain things committed and we won't avoid the shutdown, and that figure of forecast deficit that I mentioned to you includes the two shutdowns that were announced, because when we shut down we don't save money, we lose money.

MR. D. GOURLAY: Mr. Chairman, I'm, to say the least, disappointed with respect to - the Minister had led us to believe that there would be, I thought, a more detailed Annual Report in the making and we were provided with this temporary document, which provides some information. In comparison to last year, I believe we criticized the very expensive, glossy \$30,000 report, however it did contain a lot of information. This year, we have the document that's fine as far as the construction of it, but it doesn't contain any information.

We were led to believe that with the incoming president, the company would be turned around and this year we don't see any message from the president with respect to the turnaround that we were expecting to occur, and I'm sure there is some definite improvement in the reduction in expense, but when a company has been running at millions of dollars in the red and then it comes out to \$9 million in the red, I guess it doesn't seem too bad. It shows an improvement, but I'm just wondering, the Minister indicated in question period or at least intimated, that the Annual Report had gone to printing and it wasn't ready and we were getting this temporary document. Is this the situation?

HON. J. STORIE: Mr. Chairman, what I think I said was that we had intended to include the Auditor's Report, and so forth, in an Annual Report that would be tabled.

We published, as the member acknowledged, a rather expensive Annual Report the previous year, a 10th Anniversary Report. The Board of Directors reviewed the necessity for an Annual Report and the benefits that accrued to the corporation, because of that report. Given the urgency and the requests from members for the annual operating statement, a decision was made to provide the brief overview with the Auditor's Report, rather than include it in a much broader publication, which would be an Annual Report and sales document.

Given that the required documents were tabled, a decision was then made to produce what will be, in effect, a sales brochure report on Manfor; so they're two separate items as of this point. When I was asked

earlier, it was the intention originally to produce them together, much in the same fashion as was produced the previous year. It was felt that by breaking them up we could do, perhaps, both things as effectively, if not more effectively.

MR. D. GOURLAY: Mr. Chairman, the Auditor's Report was dated November 30th. I believe the first request for the tabling of the Annual Report wasn't made till the latter part of the April. Now I don't think that that's pressing the Minister too much for tabling the Annual Report, because normally we deal with the Annual Report during the Session. I can't say for sure, but I think it was around April 24th, when the first request was made for tabling of the report.

In view of what the Minister is saying, the Annual Report publication should have been well advanced by that time and this was the intimation I thought that the Minister had made. In view of the fact that we wanted the Annual Report sooner than he was prepared to table it, we ended up getting the one that was tabled subsequent.

HON. J. STORIE: Mr. Chairman, I wasn't suggesting that the pressure from the members opposite was solely the reason for tabling this particular document. I had indicated that we had intended to amalgamate the report that you got, or a facsimile thereof, with something a little more in line with a sales document. It was the intention originally to do that.

A decision was made, because I understood that members opposite wanted the financial information, to separate them and I think that was a good decision, in that the document that will now be produced dealing with Manfor's operations, along the lines of what was produced last year, will be more useful as a marketing tool. That decision was made.

I'm not blaming the member opposite or anyone else for that decision. I think that the information you got, while plain, is the information that you required and that is required we table. Hopefully the other document that is still being produced, which I refer to and which we intended to amalgamate, will be produced and will serve its own particular purpose.

MR. M. HARVEY: Maybe I could just add a little bit to that. The difficulty was that we had originally intended to produce a more modest version of the 10-year report, with a specific purpose of introducing our new product. As we worked through it, we had intended originally to make it all into one document. We were very close to go into printing when the request came for the Annual Report and we made a decision, based on our financial situation and the need to do a good job on the sales product, the brochure for the new product, to split the two reports and concentrate on producing a sales kit on the special performance or super performance kraft; and at the same time, providing the required information to the Legislature on the operations of the company. But the original intention was to do that in a combined way.

HON. J. STORIE: Yes, I just add to Mr. Gourlay's earlier comments about his disappointment, I suppose, in the current loss, the loss that we're reviewing in the 1983-

84 year. It is disappointing that that loss is there. I had projected in our previous committee hearings that we would reduce by 50 percent, the losses of the company from 1982-83. We have done that.

I also predicted that we would be in a much better position in the current fiscal year. That has not happened and obviously there are a number of reasons why that hasn't happened. The chairman mentioned the soft markets and the extremely low prices. I guess that, all things being equal, some of the measures that the chairman outlined that are being undertaken have been ongoing for the last number of months are going to create a situation whereby, even when the markets are low, we can come forward with a better performance than what we're bringing to committee or projecting for the current year, and that's the goal.

Again, I reiterate something I said last year, that we are not alone as a forest products company in experiencing extreme financial vulnerability, extreme financial volatility, I guess. It's something that's spread across the industry and whether it's major international companies like MacMillan Bloedel or smaller ones like Canfor, they're all experiencing the same problems, the same difficulty in predicting, never mind from year to year, but from month to month, what prices are going to be. I think as everyone at this Committee knows that's, by and large, the determining factor on the financial performance of the company, what the markets will bring and what kind of volume can be sustained.

MR. D. GOURLAY: Mr. Chairman, I don't want to dwell on this at great length but just to sum up. It was my impression, from listening to comments during various questioning of the Minister, that there was great news ahead; there was a big turnaround in Manfor and that we could see nothing but optimism in the future.

We get the Annual Report and it looks like it's a company going out of business. There's not much information; it's doom and gloom. As I mentioned earlier, there is no indication from the president with respect to what he sees down the road with respect to making this a viable paying company in the future.

I accept the comments by the Minister as to what has happened, but I just want to put on the record that we were being led to believe that there was much more information that would be forthcoming at this meeting to show the positive steps and the bright outlook for the immediate future. Now we're told that the situation doesn't look very bright for the coming year or the next couple of years and that we can expect a loss of something like \$18 million on the current year's operations. I just want to put that on the record.

In the Annual Report there doesn't make any reference to who is on the board of directors at the present time, although Robert R. Wilson has signed as one of the directors and on the last Annual Report tabled last year, Mr. Wilson's name does not show as a director. I wonder if the Minister can indicate the makeup of the board of directors at the present time.

HON. J. STORIE: Mr. Chairman, I wouldn't want the member to leave with the impression that all is doom and gloom. I don't think that either my comments or the chairman's comments indicated that.

What I did say, quite clearly, was that my prediction last year for the next two years were only 50 percent

right. I said that we would reduce the operating deficit of Manfor by 50 percent; from 24 million to 12. We went down to 9. I had assumed, again remembering that we were June last year, I made the prediction based on a forecast that was prepared by Manfor for a 10-year period indicating where the prices were going, where they felt our costs would be. Our cost didn't change; our cost, if anything, went down. We're obviously dealing with volume and price that are affecting dramatically the outcome for 1984-85.

This year is going to be a lot more difficult than we anticipated some year-and-a-half ago. That doesn't mean that the outlook is bad. What we're saying is that we have two of the three major pieces in place for what we hope will be a sound base for Manfor; that is the upgrading and the refinancing. The reorganization is taking place. The chairman has indicated, and I've indicated in the House, that we're undergoing a major review of our costs and ways of reducing our costs that go from the people in the bush to senior management. They're preparing a set of recommendations that's being done in co-operation with all the people at Manfor, something that has to be done so that we can reduce our costs significantly.

All of those things and the somewhat brighter outlook in markets, the fact that one of our major competitors, the St. Regis Company, is withdrawing from the unbleached kraft market bodes well for the company. All is not doom and gloom, on the contrary, we've had a minor setback, something that I obviously couldn't predict last year and no one in the market could have predicted it.

Remember that, particularly in terms of lumber, we're I believe, in North America, experiencing the highest volume of lumber sales ever. Housing starts are up. Unfortunately, prices are not and there are many, many companies who are, in effect I guess, dumping lumber, so the prices are down there are many people competing for that volume; whereas you might expect increased prices, with all the activity it hasn't happened. The markets have been soft for other Manfor products like unbleached kraft.

It's not doom and gloom, it's a setback and something that we are now gearing up to be able to handle in the future. It's going to require some tough decisions. Certainly I have every confidence that the current board whom I will name momentarily are going to deal with those problems in a forthright way. We're not going to duck the issue; we haven't ducked the issue on the other major decisions that we've had to make and we're not going to duck this one. It will be the responsibility, and it is their mandate, both the board and the management, to deal with those problems.

The current Board of Directors consists of Chairman Mr. Murray Harvey, Mr. Ken Cassan, Mr. Lloyd Schreyer, Mr. L. Rogowski, Mr. Wayne Halverson, Mr. Bob Wilson, Mr. John Milner, and Mr. Garth Chambers. There is one vacancy as well.

MR. B. RANSOM: Just a question arising out of the Minister's comments, Mr. Chairman. The Minister said that a number of companies are dumping lumber on the market. Is Manfor dumping lumber on the market?

HON. J. STORIE: I'll let the chairman answer that.

MR. M. HARVEY: Yes, Mr. Chairman, through you to Mr. Ransom. No, we are just bringing up our inventories because of not manufacturing lumber for awhile. We're essentially just re-entering the market. I think what the Minister was referring to is the fact that, in the forest products business, there seems to be an over capacity every time you turn around, so while all of the signs that would indicate a fairly high price for lumber are in existence at this time, the market price of lumber has not risen to the degree that it should rise given the sign.

My only answer to that is that what happened when the market started to come back is that everybody started up their mills again and, in essence, plugged the pipe. Market prices for lumber are rising at the moment and we are now up and running and we're getting a reasonable price for our product, but that's something of very recent vintage. I think the significant thing is that back when the decision was made to go through the retrofit, all of the signs on the lumber side have come to pass, but what hasn't been appreciated is the effect of overcapacity. On the paper and pulp side, what wasn't I guess seen clearly was the effect of currencies on the way overcapacity is managed in the international market. Most recent forecasts in that area indicate that we still have an overcapacity in paper. There are things developing in the Third World that are certainly something we have to look at, particularly the use of some southern hardwoods for producing various grades of paper, so the market is fairly turbulent, even yet. However, with respect, if I may take this moment to just talk about the reason for a lack of information in this report, responding to Mr. Gourlay's comment, this is only basic information.

There was an intention to provide some further information in our promotional information and that will be available to you as soon as it comes out, but we weren't trying to produce a gloom and doom document by looking at the comparisons of the two. We were merely trying to respond in the best way we could. The president did have a message that will go into the promotional package and it was a decision - basically my decision - to try and get this out to you and leave the rest for the promotional package. I don't believe it's all gloom and doom, but I think that this year we're not going to appreciate any of the effects of the retrofit to any great degree, or the effects of changes in the market like our main competitor, coming out of stress paper.

MR. B. RANSOM: What's the Minister's definition of dumping, when he says companies are dumping lumber on the market? What does he mean by that?

HON. J. STORIE: I simply meant coming back on to the market and selling at a somewhat reduced price. I don't think I can say, with any degree of accuracy, to what extent they're selling below their cost simply to create cash flow, but I simply note that despite the fact that housing starts, which are usually a pretty good indicator of where prices will be, have not been a very firm indicator in the past, so there's been a more than sufficient supply.

MR. B. RANSOM: Does Manfor sell lumber below its cost?

HON. J. STORIE: Not if we can help it.

MR. M. HARVEY: Through you to Mr. Ransom, the lumber market is a spot market and there are times when we would sell below manufacturing costs. In fact, if you recall, one of the reasons for rebuilding the sawmill was to get our costs more in line with what we could anticipate the market. So there are times when lumber is sold below manufacturing costs by us, and I assume by others, but what we are hoping to accomplish by rebuilding the sawmill is to make those incidents fewer because our costs will be more in line with the market, which incidentally is what we're trying to do with the overall company.

My appreciation of this industry, and I'm very young in it, is that the companies, generally, seem to be very whiplashed by changes in market, and Manfor, more than any of the other ones. So what we need to do, in my view, and what we're attempting to do is to get our costs to a point where even in poor markets we would have some better performance; but both mills at certain times, in order to sustain the losses or contain the losses would sell below costs because the cost of shutting down is horrendous.

MR. B. RANSOM: It would appear then from the answers that the Minister has given and Mr. Harvey has given is that Manfor engages in the same type of activity, of dumping lumber, and I would suggest the same thing applies to pulp and paper as well, because the taxpayers have been subsidizing this for some period of time. It must surely then have been selling at less than cost or else we wouldn't be running up the losses that we have. Perhaps that has something to do with why one of your competitors is going to get out. They don't have taxpayers behind them to subsidize them for that lengthy period of time.

MR. M. HARVEY: With respect to the last remark of Mr. Ransom, the competitor, my understanding is that this mill was built in very recent times at a cost of \$350 million, and I can't speak for them, but I would guess that their experience has been that the return on that investment just hasn't been there and I would think that would be one reason for them to get out.

The other reason, we suspect, is that Champion is a fine paper company and their interest is in fine paper and that would be the second reason to get out. I would admit that there's always the question, when somebody gets out of a product line, but we believe that we're right in staying in, that the multiwall market is still there and will be there to the best of our projections and that in the final analysis it will be a larger market than we had originally anticipated.

With respect to costs, I think that people who are in business appreciate that there are cycles in business, that sometimes you don't make money in every year.

If you'll permit a little homespun wisdom, I have a friend who lives in Bowman, which is in Mr. Gourlay's constituency, and he raises pigs. I sold some pigs once and lost a lot of money on them, not a very great deal, and I went to see him to see if he could console me. He said, well, you don't worry about spot prices in my business, you worry about what you can do over a period of time and there are times when you lose money

and times when you make money. But if on average your making money exceeds your losses then you can stay in business.

Essentially, although that's a minor story, the wisdom is there, that if we can get the costs down to the point where we don't get hurt so bad in poor markets, then in the good markets our costs and revenues will average out. I agree with Mr. Ransom that if you look at the 10-year performance, then it's obvious that costs quite often, more often than not, do exceed revenues and that's what we're attempting to get at, both with the retrofit and, like every other forest products company, attention to costs. We have to reduce the costs of our raw materials and the costs of our conversion.

If you look at the market in retrospect, over time, you'll see that the ability to sustain such costs is not there. — (Interjection) — That's true, but only in the sense that if your job, as we consider ours to be, is to make this thing work, then we don't consider a \$9.3 million loss a success story. What we will consider a success story is a situation where the revenues from the good years will offset any losses in the poor years on a continuous basis, and I think most companies would operate that way as well.

MR. D. GOURLAY: The Chairman, in his letter to the Minister, indicated - and he made reference to it here today - developing new super performance kraft. What is involved in actually achieving this kind of product?

MR. M. HARVEY: Mr. Chairman, through you to Mr. Gourlay, what we needed to do is we needed to really streamline a process that we already had. Strength in paper comes from two places, the fibre that you start with, and the way the fibre is treated as it goes through the mill on the paper machine. We had the right kind of machine, but not the right kind of press section. We had to improve the press section and we also had to improve on the way the process was controlled; in other words, we couldn't get our controls as precise as we needed to do that.

Our results of that retrofit indicate that we have achieved it. Our paper strength is superior to St. Regis now. There are two ways paper can be strong; one is the way the machine runs and the other way is across the machine; we have been able to achieve better tensile strength in both cases. This is important from the point of view of a bag because, when you throw a bag down with something in it, the test is on the sides.

So to answer your question, what is needed is a better control and a good raw product. Our tests out in the field have come back all positive and I think, in all cases, superior to the St. Regis product.

MR. D. GOURLAY: What you're saying then, Mr. Chairman, is that you are in a position now to start producing this in mass production; and was this part of the retrofit program to be able to produce this special . . .

MR. M. HARVEY: Yes, Mr. Chairman, the objective of the pulp mill retrofit was to allow us to bring our multiwall paper up to and beyond the specifications of the competitor. We have done so; we can now make it; we have been making it. We've had test sheets out to a

number of users, and they have put it through their tests and we are now just beginning to get some volume orders for the product, but the market is a little flat. In other words, it's not as good as we expected it to be, but our technical specifications have been met and our volume specifications have been exceeded.

MR. D. GOURLAY: I believe it was mentioned that the modernization is almost completed, if not completed, other than just cleaning up some of the loose ends?

MR. M. HARVEY: Yes, the first paper was run on January 14th, our first new product paper; it's all run in. There are some loose ends there of a minor nature that we'll clean up during this July shut down. The sawmill, we had more difficulty but we were working with a much bigger rebuild, not in terms of dollars, but in terms of the mill itself. We had some difficulty getting the computerized controls to work on the head rigs, the main breakdown equipment. That's all pretty well resolved and we're now operating two shifts at the sawmill and just about to start the planer. So while the technological improvements are complete, the effects of them are not being received in a revenue sense as yet.

MR. DEPUTY CHAIRMAN, E. Harper: Mr. Gourlay.

MR. D. GOURLAY: There was indication that the automatic mode or the computerized part of the lumber mill that malfunctioned and had not operated properly, that has been worked on and you've indicated that pretty well all the bugs are out of it now?

MR. M. HARVEY: As recently as Monday, they were running on automatic mode. The problem dealt with the way the sensors that rigged the log as it comes into the saw, feed information to the computer and they couldn't get the two things to talk to each, if you want to use computer language; they've overcome that.

There are some other programs that are not up and running yet, but they're mainly report programs as to find out how much wood went through on a shift and that kind of thing. The major difficulty though has been overcome, but it was a significant difficulty for us because we couldn't get it to do it and the computer had to be sent back out and retested and then brought back into The Pas.

MR. D. GOURLAY: It was indicated at the start of the modernization that the project was going to cost some \$40 million, and the Annual Report indicates something like I believe close to \$50 million. What will the actual cost of the modernization end up? What will the total figure be?

MR. M. HARVEY: I have the actual figures here, in rough figures. I'll give the other one to you, momentarily.

The original \$40 million was an estimate based on five options. If you will recall the process at the time, they had consultants looking at a number of ways that might be used to make the mill more profitable, and there were five options, which I believe ranged all the way from \$20 million to \$500 million. The \$40 million option was chosen as the most likely and last year,

when we talked about this, we indicated that the figure would be closer to \$50 million, in fact, I think I said that last year at committee.

Our actual budget, once we refined the figures, once we picked that option and went back, the budget approved by the government was \$48 million, \$48.6 million, I believe, and the actual figures are around \$50 million.

MR. D. GOURLAY: Why was the decision made to shut down the operation while the modernization was taking place, rather than phasing it in to keep the shut down time or down time to a minimum?

MR. M. HARVEY: Mr. Chairman, in the pulp mill, we did run right up until the last minute, and then pulled the centre out of the mill and shoved it back in, and he virtually couldn't run the mill with the thing out of it, so that was the minimum time. With the sawmill it was a major rebuild, and we had to pull everything apart.

We did experience more downtime than we anticipated mainly because of the problems we had with the automatic controls but I think our intention in the sawmill was for a lengthier shutdown than in the pulp mill. It seems to me it was six weeks if I remember correctly.

Our whole production schedule got set back in the sawmill due to a strike with a major supplier, but the rebuild in the sawmill you virtually couldn't run it after a certain stage. We had to shut it down, pull everything out and then put everything back in. But we didn't anticipate that it would be as long as it was in getting it up and running again.

MR. D. GOURLAY: The employees, as I understand it - maybe you can correct me if I am wrong - most of the employees were kept on even though the mill was not operating or doing other functions at the plant?

MR. M. HARVEY: Yes, Mr. Chairman. In the sawmill side we did keep our workers on. They were engaged in doing work that had never been done over the life of the sawmill, probably never had been done in the very beginning. We kept them on to a certain point and then we started to run the new mill in which case we had them working and learning in the start-up of the operations.

Now if we hadn't had these serious difficulties with the computer controls, we probably would have avoided any layoff whatsoever, but when the computer wouldn't work and we began to build up a list of things that needed to be attended to while the mill was down, at that stage we did go through some layoffs in the sawmill. But we were hoping originally not to lay the people off and we did the same thing in the pulp mill.

There was an extensive training program on both sides to bring our operators up to snuff on the new equipment which is quite a bit different than what they had been used to operating. In fact, if you go to the mill you will find that some of the operators' booths look almost like a Star Wars thing. They have very very sophisticated controls.

We had hoped to run the sawmill in with training, which we did, but in the end because we couldn't get

Tuesday, 18 June, 1985

the computer operating properly, we did have to lay off.

MR. D. GOURLAY: In order to keep the staff working and on the job, was the Jobs Fund money used for this purpose? I notice there was in the News Release - I don't have a copy handy, I thought I had - but it mentioned there was X number of million dollars through the Jobs Fund that was part of the modernization. Was this money for salaries of those workers?

MR. M. HARVEY: Not specifically. The Jobs Fund money was for capital, but the cost of keeping workers or training workers and engaging them in the way we did during the retrofit would be set up as a capital cost - our development cost I should say, to be more precise - and amortized over time. But I believe, to answer your question more directly, the Jobs Fund contribution was used as part of the capital purchasing for the retrofit.

MR. D. GOURLAY: So the money paid to the employees would show as an operating expense and not part of the capitalization of the modernization part?

MR. M. HARVEY: Well, that's not quite correct. In the modernization or retrofit you have capital costs which are the actual acquiring of the assets, and then as you put the mill together and start it up again and run it in, you also occasion things called development costs which you can charge labour to up to a certain point and that's amortized in the same way as capital is amortized - the capital costs are amortized over a particular length of time - but usually it appears on the statement as development costs, it doesn't appear as capital costs.

Development costs are the costs of getting the new asset running and would include that labour that we used in the context of the project. Now at a certain time that stops and then it goes on to operating expenses, which I think in the case of the sawmill, it was about mid-February.

MR. D. GOURLAY: Is all the money now paid out or is there still holdback money being held till everything is working properly?

MR. M. HARVEY: Mr. Chairman, I think the majority of money is paid out. There are some holdbacks on some of the items in the sawmill for certain. I don't know whether there is any money left in holdback in the pulp mill.

Oh yes, we have a winder that has to be completed in the pulp mill; there is probably some money held back on that. But in the sawmill there are certain dollars being held back on some of the components that are not quite up to snuff yet.

MR. D. GOURLAY: With respect to the construction details, are there any problems outstanding in that area?

MR. M. HARVEY: I think the majority of the difficulties that we were having have been rectified. We do have a court case at the moment with Kraft, but I wouldn't want to comment on that because it's in court, and

that was with one of the original contractors at the sawmill.

MR. D. GOURLAY: Mr. Chairman, if this is before the courts, please correct me if I am getting into an area where it may jeopardize the situation. Is there a problem with the concrete situation? Is this part of the lawsuit, concrete installation?

MR. M. HARVEY: Mr. Chairman, I just want to check on what that is. I am advised that I can't comment on that because of the nature of where it is with respect to the court case.

MR. D. GOURLAY: The Minister indicated that there were conflict-of-interest guidelines that have been adopted by the company and put in place this past year?

MR. M. HARVEY: Yes, we went through a fairly extensive review of conflict of interest. I went to several places for guidance on conflict of interest and we have adopted a conflict-of-interest policy that we hope will protect both our employees and ourselves from conflict of interest. I would guess that it is possibly even more stringent than normal, but we felt that in view of the fact that we were a public corporation that there was more potential for misunderstanding in this area, so the board passed a policy sometime last winter, I believe. Information has gone out to the employees and has been reviewed with them. I don't think we are complete in that process yet, but many of them have gone through the process and we asked them that they sign a document that they understand the implications of conflict of interest and what we have asked them to be concerned about.

MR. D. GOURLAY: Would it be possible for the Minister or yourself to table a copy of those guidelines?

MR. M. HARVEY: I don't see why not. They are fairly standard. It is up to the Minister. I can get a guideline to him if he doesn't already have one.

HON. J. STORIE: I can't think of any reason why I couldn't share with the member the guidelines. Again, it is corporate policy but I think a well thought-out set of guidelines, and I would be more than happy to share them with the member at his convenience.

MR. D. GOURLAY: Sometime ago there was an article in I believe it was the Free Press regarding conflict of interest charged with one of the employees in the lumber division. Is that situation finalized or is it still before the courts?

MR. M. HARVEY: Mr. Chairman, that matter is still before the courts.

MR. D. GOURLAY: With respect to the supplier of concrete to the plant, I understand one of the owners is also an employee of Manfor. Is there any problem with a conflict of interest in that situation?

MR. M. HARVEY: We have taken note of that. The employee has declared his interest as required by the

conflict-of-interest guidelines, and we had made certain that he would not be involved in any decision-making with respect to the awarding of contracts that would accrue to the company that he is involved with.

So the answer is no. We are aware of the situation. He has declared himself and we have made certain that he doesn't involve himself in any process of purchasing that would involve him in a conflict situation.

MR. D. GOURLAY: I believe the article, dealing with the conflict-of-interest situation in the lumber section, that there was some decision made that there was no basis for the conflict of interest. Were those conflict-of-interest guidelines followed in that particular case?

MR. M. HARVEY: I think they were just about coincidental with the situation. In fact, I think they came out about the same time as that situation arose. So they would be in place in the latter stages of that, yes.

MR. D. GOURLAY: Going back to the chairman of the board's letter, there is some reference made to marketing. Does the corporation have any plans to change the method of marketing their products from an in-house operation to that of turning it over to a selling agency?

MR. M. HARVEY: With respect to the lumber sales organization, the consideration was outside agents or brokers rather than our own staff and we have elected at present to use in-house staff already in place, but we are still considering the possibilities of marketing our lumber through some sort of a brokerage network. We haven't made any changes in that regard.

MR. D. GOURLAY: Manfor, in the past, did they not use a brokerage firm to market their products, I believe through MacMillan Bloedel, perhaps?

MR. M. HARVEY: I'm advised that when the company was first formed we did do that - MacMillan Bloedel, yes.

HON. J. STORIE: Not when it was Manfor.

MR. M. HARVEY: Well, it wasn't Manfor.

MR. D. GOURLAY: Looking at the balance sheet on Statement 1, I notice the rental housing properties shows an increase of \$59,000 over the last year. What would that include?

MR. M. HARVEY: Well, the rental housing, the only acquisition I am aware of in the recent years, a house that is currently being used by our president and it would be in about that order of cost, about a \$60,000 house, I believe.

MR. D. GOURLAY: In the current year, did Manfor purchase an office facility in The Pas and, if so, at what cost?

MR. M. HARVEY: Yes, Mr. Chairman, we purchased a building that is known locally as the Lamb Building. It was the former headquarters of Lambair and our

purchase price was in the \$60,000 range - I believe \$65,000.00. Then we did some extensive renovation on the building. That is now the headquarters of the company. It is fairly modest but it has two functions, actually it serves as an employment office downtown, and we also have our internal auditor, some of our planning people there and the president has an office there. There is a provision for a chairman's office and there is a boardroom.

MR. D. GOURLAY: How much was spent on the renovations to the Lambair Building?

MR. M. HARVEY: I believe the precise figure, it escapes me, but I think it was around \$40,000.00. It would be in that area, maybe \$50,000.00. We actually rebuilt the office building. Nevertheless, it is a good space and I think the investment was a wise investment not only from terms of the economics of the thing but also in terms of cutting down our space here by about 13,000 feet I believe. We are having most of our board meetings, in fact, the majority of them in The Pas now, which allows us considerable savings in the cost of travelling.

MR. D. GOURLAY: Is there a corporate suite in the building?

MR. M. HARVEY: No, there is not. We do have a suite that we use from time to time I think for that purpose. I believe Mr. Balmer is in it at the moment, but it is in one of the blocks that Manfor owns.

MR. D. GOURLAY: Mr. Chairman, I wonder if the chairman of the board could indicate what difficulties were encountered in the renovation of the Lambair Building. I understand that some renovations had to be redone; was that a major problem or was it rather insignificant?

MR. M. HARVEY: No, Mr. Chairman, there was a major problem in the building that had to do with the roof. We knew that the roof was defective, we expected though that it merely needed to be resealed and we found after that someone, in the course of the building's rental history, had pulled out a bearing wall and we had a major rebuild to do on the roof as a result. That would probably be the renovation problem that you're referring to.

MR. D. GOURLAY: All the renovations are completed on that building and it's being used?

MR. M. HARVEY: That's correct. We've had several board meetings in that building now. Mr. Sweeney is in it, and the employment office is in it, and it has been used since about last February, I believe.

MR. D. GOURLAY: On the Statement of Operations, Statement 3, it shows an increase of \$989,000.00. I wonder if we could be advised as to what would constitute that increase, almost \$1 million.

MR. M. HARVEY: General Administrative expense? I am not certain, I'll ask the comptroller if he can find that for us, if you would give me a minute.

MR. D. GOURLAY: Well, perhaps we can go on to other questions and we can get the details on that a little later.

I understand that Manfor has purchased what is known as the Prendville timber rights, and I wonder if the chairman could indicate if this is so and at what price.

MR. M. HARVEY: Yes, it is so. We purchased the Prendville timber rights - I'll get the price in a minute - Prendville had a timber holding adjacent to Cranberry, indicated that he wanted to get out of that particular area and the people in our Woodlands did a cost-benefit study on the purchase of this holding.

The wood in that lease is very desirable wood and is also very close to the mill; and based on the price that he was asking and the savings that would accrue to us, as a result of being able to get at that wood, from a commercial point of view it was a good purchase.

We were, however, concerned about the implications of a Crown-owned corporation dealing on such a matter because of the nature of the lease, which is essentially a quota assigned to him by the government, so we made inquiries, both through our Minister and the Minister of Natural Resources, whether it would be in order for to purchase this lease, and we were also concerned because there were two other people who were showing interest at the time.

Based on the advice we received from the two Ministers, we proceeded with the purchase and the price of the purchase was \$700,000.00.

MR. D. GOURLAY: Could the chairman indicate what other companies or firms would be interested in this lease in that area?

MR. M. HARVEY: I believe the only name that I have is the Spruce Products operation because they have a mill at Clearwater. I don't know who the other one was, it escapes me at this time.

MR. D. GOURLAY: Well, I would question Spruce Products were not interested from my information. I happened to talk to the owner some time ago and he indicated to me that he was not interested in that lease.

MR. M. HARVEY: That could well be the case. I was under the impression that there were other people who were interested in it, whether they did any more than show a lukewarm interest, I don't know.

The point I'm trying to make is, not so much that there are other people interested in it, that those kinds of things take place all the time in the forest industry. In other words, those leases are bought and traded as a commodity.

Whether or not they would have purchased it or not, I don't know. We would have still wanted to purchase it because it was a good deal for us, in our opinion, to get hold of that wood.

MR. D. GOURLAY: Was the company, Manfor, running dangerously low of quota area, to require that kind of expenditure for Prendville's lease?

MR. M. HARVEY: No, Mr. Chairman. If you look at the allowable cuts in the areas held by Manfor you'll find

that we are not using our allowable cuts, but that's only one dimension of the problem. The further you get from the mill the more expensive the wood is and, because we're operating a saw mill, it requires us to try and make certain that we have a certain amount of saw logs in the mix. It was that particular thinking that made this Prendville situation desirable.

The Prendville lease is in what is called the Saskatchewan River Forest Management Area, which is the closest forest management area to the mill and, as you know, each management area has its own allowable cut.

We can go to different places and take different wood, but the wood closest to the mill in that management area only has so much wood. The closer we can get it and the more sawmill mix, the cheaper the wood is.

MR. D. GOURLAY: Mr. Chairman, the Prendville Saw Mills, was their mill in operation this past while?

MR. M. HARVEY: I am not certain of that, but I don't think it has been in operation this past while. My information at the time we were considering the purchase was that they were interested in getting out of that area. They built a fairly new mill in Cranberry but I don't think that's been operating. I'm not certain of that.

MR. D. GOURLAY: So, Prendville, in your estimation, were probably not utilizing their lease to the fullest?

MR. M. HARVEY: I am not certain of that, they did have operations in the area. Whether they were taking out what they were allowed to take out, I don't know. I think there is some requirement in the management of the forest that you do some work in your lease, but I'm not certain of what they were doing.

MR. D. GOURLAY: Well, did Manfor not check with the Department of Resources to ascertain what the situation was with the Prendville lease, in effect? If they weren't utilizing it, my understanding is that the lease holding would have been graded downward as far as the volume that would be assigned to Prendville. Was this not checked out by Manfor?

MR. M. HARVEY: Mr. Chairman, I have already indicated that we checked with Resources, both at the officials level and at the ministerial level, to see if there was any difficulty or any reason why we should not be negotiating to purchase that lease from Prendville.

I believe Mr. Jonas, who is the Woodlands manager, is a very thorough manager, and I am sure he would have considered all of the other detail. When I raised the question about the situation with respect to buying what amounts to material that's on Crown land, I was assured that those things were traded actively, people did buy them and there was no reason why Manfor, if it was in their commercial best interests to do so, shouldn't buy it.

MR. D. GOURLAY: Now I think that Manfor can justify the need for it and the question is though, how thorough did Manfor check out the leaseholding that was held by Prendville's because my understanding is that it's

reviewed periodically and if they're not fully utilizing it and indications are Prendville's were not utilizing their lease, then there would have been an adjustment made either this year or next year at the latest.

We know that the market situation with respect to lumber has been at a depressed state and I'm not certain that there'd be a big lineup to purchase the timber rights that were held by Prendville, in view of the fact that their holdings may have been adjusted downwards.

MR. M. HARVEY: Mr. Chairman, if you asked if we gave consideration to waiting until he lost the lease for lack of utilization, the answer is no.

We examined the thing in terms of its commercial viability for Manfor. I assume that that's one of the processes that Mr. Jonas would go through to determine whether or not what he was buying was actually of that market value and having done that, then I would be certain that he went through the other alternative of saying, what happens if we don't get this wood? After doing that, made recommendations to the board that the thing be purchased.

MR. B. RANSOM: Is Mr. Harvey and the board, or the chief executive officer, are they familiar with the leasing arrangements that the Department of Natural Resources uses in giving out timber rights to private companies?

MR. M. HARVEY: Well, I believe we have a familiarity with it. My understanding is that the process has not changed all that much over the years. A block of timber is leased by an operator with the understanding that they use it to a certain degree each year or have some form of penalty assessed him.

Manfor has, except for a few grandfather operators, pretty well all that timber in Northern Manitoba, but as far as the board making the decision, the way leases are operated and the detail by which they're operated on, we would depend a lot on our managers to advise us as to whether this was a good investment at this time and whether we should be considering buying it or petitioning the government to get it, or whatever. The understanding at the board level was, it was a good investment; it was a good commercial investment. The thing was tradeable in the market sense and the value to us exceeded the cost that Prendville was asking for.

MR. B. RANSOM: But did you specifically look at the option of allowing the lease to revert to the hands of the government and then compete for getting a lease from the government, rather than from Prendville?

MR. M. HARVEY: Mr. Chairman, I have already said that we did not consider, to my knowledge, we did not consider the option of sitting back and waiting to see if Prendville would lose the lease for non-utilization or if somebody else would buy it or if there were other interests in it. We took the view that it was a good commercial deal for the company.

I would imagine that Mr. Jonas would have considered that idea and came to the conclusion that it was not the right thing to do at this time. The only other thing we did with respect to it, as I've already said, was to

check with the Department of Mines and Resources as to the propriety of a Crown owned company purchasing something that in many respects was still the property of the Crown.

MR. B. RANSOM: Mr. Chairman, we have no difficulty with that concept because, of course, it was a Conservative government that brought in the system of leasing.

When I was Minister of Natural Resources, we changed the system to make it so that a company in effect had an ongoing tenure lease if they were using the product and if it was still available, and if it wasn't available, then it began to run down or if the company didn't need it, they were going to lose it, and it would revert back to the government. There is no difficulty in principle with the company making a deal from another individual, or another corporation, and if that was the question put to the Department of Natural Resources, then I can well understand why they would answer, no problem.

The chairman may feel that it was worth \$700,000 to get the rights. The real question is, could they have had the rights for \$300,000 or \$100,000 and I don't think we can, for the sake of this committee, simply accept the chairman's statement that he imagines that certain things have been looked at.

I think we're going to need the assurance as to whether those things were looked at, because it seems to me it's very doubtful that there were other individuals, other companies lined up to spend \$700,000 to buy into an industry that is as competitive as this industry is and where as many people and individuals are losing money as they are.

So, Mr. Chairman, I would request that the chairman make specific inquiries before this committee meets the next time as to why this decision was made; what the other options were; and find out from Natural Resources what was happening to that lease and what might have happened to it a year from now if Prendville had not been fully utilizing it. If the chairman is prepared to do that, then I think we would simply wait to have that information.

But we're talking about a very substantial expenditure of money here and I think we want to be assured that it has been spent in the wisest fashion; not just that it may have been a good deal, but that it could have been a lot better deal.

MR. M. HARVEY: Yes, I will undertake to do that. I want to add a couple of comments though. The first one being that it seems to me that Prendville had in very recent times, built a new sawmill on the Cranberry site which is adjacent to that wood. I believe he would have kept operating in order to maintain the lease if he didn't find a buyer. So that's one thing.

I would also add that this particular item, although I can't recall the exact details of it at this time, received considerable discussion at the board and in addition to the policy question, was considered as to whether it would be a good deal for the company at the time.

So the decision, and I'm only making the point to Mr. Ransom, that the decision was not taken lightly. If we figured we could have got it cheaper, we certainly would have so directed.

But in any case, I will undertake to review the case to see just what the circumstances were at the time of the purchase with respect to the possibility of the lease being downgraded or made less valuable by some kind of non-utilization by Prendville.

MR. B. RANSOM: First of all, let me say I appreciate the fact that he's going to come back with the details, but those remarks simply heighten my concern because the chairman has said that it was discussed at length at the board, but yet the chairman can't specifically answer some of the questions as to whether or not the other options were thoroughly examined. It seems to me that if it had received extensive discussion of another option, that the chairman would be aware of that now.

MR. M. HARVEY: Mr. Chairman, I did not say I wasn't aware of the other option; I said I was not aware of the precise question of whether the information, as to sitting back and letting the lease expire was a consideration of the board. I know the process would have went that those questions would have been raised, and we would have asked what Prendville was doing at present. My recollection of the thing was that Prendville was operating the lease and was looking for a buyer so he could get out of there.

HON. J. STORIE: Just two points, No. 1, I think that it stretches one's credulity to suggest that an operation like Prendville was going to let a lease of that relative value expire for want of cutting a few thousand cords. So I don't think that was going to happen.

The second thing was that it was our understanding that there were, and I'm sure there would have been in any case, people interested in that particular lease, given the value and the quality of the timber in the area. I think it's important to know that. The member suggests his concern was that we could have had a better deal. He's not saying that we didn't get a good deal, but he's saying we could have got a better deal.

I suppose it's quite obvious that we were not party to any other negotiations and discussions that were ongoing with other people. I think the chairman's indicated that those leases are traded, purchased, and I assume there is a fairly standard format for assessing the value of a lease. That was undertaken by Manfor officials before a decision was made.

MR. B. RANSOM: Again, Mr. Chairman, we are simply getting assertions on behalf of the Minister without any facts. He says he is sure there are other people who would have been interested in buying it. Well who are the other people who would have been interested in buying it? He says he is sure that Prendville's would have gone ahead and, for the sake of cutting a few thousand cords, they wouldn't have allowed their rights to expire. What information does he have that indicates that is the case? Does he have any information, or is that simply another of the Minister's off-the-cuff kind of statements that he makes frequently about the operation of this company? Is he not aware that the value is going to be determined by the marketplace?

Were there other people in the marketplace trying to buy these rights from Prendville? If the company can tell us, yes, they were in competition with other

people, fine. That's why I say it may have been a good deal, but so far the Minister and the chairman haven't provided us with any of the hard facts that would indicate that they really examined all of the options. That's all we're asking is to be certain that the options have all been examined.

Perhaps the Minister, or the chairman, would be prepared to show us some of the documentation, some of the recommendations from Mr. Jonas, the minutes from the board meeting. We might be entirely satisfied that they made a good deal but, at the moment, there are a number of unanswered questions that can't be dealt with simply by assertions by the Minister.

HON. J. STORIE: Well, first of all, Mr. Chairman, we're not party to any sale that Prendville would make. If you're suggesting that Prendville would sit down and say, well, Jerry, yeah, we've got a sale for this much, that simply isn't going to happen and the member knows that. Those discussions and the possibility of a sale are always there. If the member is suggesting that we should overlook what was an analysis, and the member hasn't suggested that there's anything wrong with the analysis, that commercially this was a good deal for Manfor. He's saying it could have been better, I understand that.

So the implication is that we should sit back and not make a deal which is in the financial best interests of Manfor on a wait and see basis to see whether Prendville did come up with someone else who would purchase it at a price lower than what we were offering. Those are the intangibles that there is no simple answer to. You assess the risks and the costs and the benefits and you make a decision. I don't think that we were party to, nor is it reasonable to expect that we would be party to, the discussions that Prendville had with other potential purchasers or his own internal plans.

So obviously he's going to make the best case. We're going to do an assessment, and a decision will be made. It's quite possible that, if we hadn't made the decision, it would have ended up costing us more. Are we going to get into discussing what the outcome might have been if we had not purchased those particular timber rights? It may have ended up, in the long run, costing us significantly more.

MR. M. HARVEY: Through you to Mr. Ransom, I would just like to add a couple of things. First, we would undertake, in fact, to get the original proposition from Mr. Jonas back here. I have just been told that Mr. Jonas did go to Resources and inquire whether there was any potential that the lease might be downgraded and he was told, at the time, that most of the operations were cutting less than the allowable cut because of market conditions, and they were allowed to do that. There didn't appear to be any change in that particular situation forthcoming.

I add that, because it indicates to me that he did do his homework. If Mr. Ransom would be prepared to accept my word that we will get the original material together and prepare a report for Mr. Storie who can take it to him or to this committee.

MR. B. RANSOM: Mr. Chairman, I am prepared to accept the chairman's assurance that he's going to get

the information. What I am not prepared to accept are some of the offhand statements coming from the Minister.

I would, first of all, like to put on the record that I did not say, as the Minister has indicated, that this was a good deal. What I said was that I am prepared to accept the assurance from Mr. Harvey that his analysis showed that this would be a beneficial deal for the company to make. That does not mean that there is no possibility that there couldn't have been a better deal. I have not looked at the figures; I have no way of knowing beyond accepting Mr. Harvey's assurance that that is the case. I would appreciate if the Minister would stick to the facts and not try and distort the statements that have been made.

If Mr. Harvey would bring information to this committee when it next meets, then I think that would be valuable and would allow the committee to have a reasonable discussion of an important issue here. We are talking about a company that costs the taxpayers \$30 million a year to own right now, and a \$700,000 expenditure is not an insignificant item to want some information with respect to.

MR. M. HARVEY: Mr. Chairman, through you to Mr. Ransom, I would undertake to deliver that information at the next time this committee meets. I would like to say something, though, about the idea of the taxpayer paying \$30 million a year.

I recognize that the company has not been performing as well as we would like it to perform in the commercial sense, but I would also like to have it entered into the record that this company makes a considerable contribution to the Province of Manitoba even in its difficult times. The total investment in Manfor in the past 10 years is about \$184 million. That includes funding all of the operating deficits and it includes the capital expenditures. At the same time we have had, since '74, a net cash operating loss of \$27 million. In that same period of time we have contributed, by way of back to the province in expense items, in excess of \$50 million. We have also the deductions made for personal income tax for the employees in the last 10 years, which have been a total of \$19 million. So the net positive cash flow from operations from this company to the province is in the order of \$42 million.

Now I recognize that if we were able to take that money and put it in the bank for 10 years, we might be able to get \$18 million a year, based on a 10 percent investment. Nobody does that and I am not taking exception to Mr. Ransom's remarks, but I would like it clarified that the company, while it does have some difficulties, all of these loss figures quoted in our financial statements do not reflect the true worth of this company to this province. We would like to do better; we would like to enhance that.

But, certainly, if you consider a \$184 million investment, and while pulpmills aren't the hottest thing on the market at this time, the replacement value of that mill is in the order of \$350 million. The cash flow from operations are considerable. We paid back \$33 million worth of interest in the last 10 years.

I just want it understood that the idea that this is a drain on the taxpayer is an inaccurate idea.

MR. B. RANSOM: Well, Mr. Chairman, I am sure that a lot of taxpayers would think that it was a drain. The

fact of the matter is that when the taxpayers have \$184 million invested in this company, there is an interest cost.

According to the Provincial Auditor, in his report dealing with McKenzie Seeds covering the year ended October 31, 1984, which is not much different from the year end of Manfor, he said that the long-term borrowing rate of the province was 13.54 percent for that period; 13.54 percent on \$184,020,000 comes to \$24.916 million. That is an out-of-pocket cost to the taxpayers of Manitoba; add to that the \$9 million that within the company was lost, and you have over \$30 million. Now that's the starting point of the cost to the taxpayers, the cost to the shareholders of this company.

Now if there are some other benefits coming back to the province, to the taxpayers, as there are - there have to be some coming back - but there is absolutely no way that Mr. Harvey or the government or anyone else can demonstrate that at the moment we are getting over \$30 million more in benefits back to the taxpayers of Manitoba.

It's over \$30 million that it is costing the taxpayers in the year under review to own this company, and in the present year, unfortunately, it looks like it's going to go much higher than that. Indeed, we will probably be back to where we were two years ago. When one looks at the \$17 million to \$18 million projected loss, plus the interest costs on the two years of losses inbetween, that, unfortunately, puts us back to where we were.

It appeared as though there was some progress being made with respect to this year, and we certainly commend the management for making some progress, but let's not overlook the fact that this company is still a huge cost to the taxpayers of Manitoba, and until it's turned around it is going to continue that way.

In the chairman's own comments in his letter addressed to the Minister, he talks about new and innovative ways of controlling costs will have to be the next chapter in the company's history if this firm is to survive. The chairman himself is raising the question of "if this firm is to survive." Now, surely, if it is not a drain on the taxpayers, the chairman would not be raising the question of "if this firm is to survive."

MR. M. HARVEY: Yes, Mr. Ransom, I agree with you in the commercial sense is the way in which I meant that message. In the commercial sense, if the firm is to survive, then it has to find a way of making its losses consistently less than its revenues. That's what we're about; that's my job.

If the firm is to survive, there must be some feeling of confidence amongst the people who own it, which is the people of Manitoba, that it can do these things and that it is a benefit to the province. I am not saying that I am satisfied with the way it is. I am merely saying that the cost of losing Manfor is considerably more than just shutting it down, which there would be a capital cost, that the contribution that the firm is making now to the province is a considerable one in terms of taxes.

An example would be, for example, although it's not directly the province, in the past 10 years we have paid \$10 million in taxes to the Town of The Pas. Now, these are all costs that we experience. They all come off the bottom. If your bottom line is in the red, they add to it.

The point I was only trying to make was that if you add these payments that we make into the Provincial Treasury back in, then there is a different picture. I am not talking about ancillary benefits or things that you can't put a finger on, I am talking about money that flows from the province to the corporation, which is the taxpayers' money, and money that flows back from the corporation to the province, which also becomes part of the provincial budget.

I have no desire for the firm to continue in a loss position. I do not see that as my job. What I see as my job is making it commercially viable, and that is what we are trying to do. But I find that job difficult if the people that the general public sees Manfor as an impossible situation, one that can't be turned around, probably if the opportunity to make an investment in pulp and paper right now were ours, we would not do so. But it is not our job and not our opportunity to do that. We have to try and manage the investment that has already been made and that is what we're trying to do to the best of our ability.

I'm not trying to smudge the loss; the loss is there. Commercially, we are in a lot of trouble and we are trying to get out of that. But in the broader sense, there has to be an appreciation that if the mill stops then there is more loss than just what appears on the company's balance sheet and that, of course, would be true of any private sector company as well.

HON. J. STORIE: Well, I want to echo some of the comments of the chairman of the board. We have said, and I have said at the beginning, that we don't find it satisfactory that there was a \$9 million loss at this point. Mr. Harvey went over some of the benefits that accrue to the problem. I suppose that is part of the rationale or the justification for continuing with our efforts to improve the situation.

The Member for Turtle Mountain is well aware of the fact that before the incorporation of Manfor that there were some difficulties. The investment was already over the \$100 million mark, that in the intervening years there has been additional investment and all of this was in an effort to improve the situation.

But the picture isn't as black and white as the member would have us believe, it never has been, and we've been through this argument I suppose at each of the last committee hearings over the last 10 years. It is quite likely that this debate has taken place.

I think there are improvements in the last 12 years. There have been at least five years - I believe it is five years that Manfor has reported an operating surplus - we believe that some of the things that we are doing are going to put us in that situation again.

MR. B. RANSOM: Mr. Chairman, I know we've been through this argument before and that's why I was not prepared to belabour the point and was prepared to let it rest with Mr. Harvey's final assertion because I know that philosophically we have a difference of view. I'm looking at it from the point of view of the cost to the taxpayers and I consider that there are certain social benefits that may flow from that, but the cost - the bottom line - really is the bottom line because the taxpayers cannot pull themselves up by their own boot straps and support the economy of this province by

having a number of operations like Manfor and try and make believe that that's a net benefit to the province. It isn't, Mr. Chairman. The Minister of Co-op Development says, will you shut it down?

It isn't the question that's been raised, other than by the chairman, in the chairman's letter of transmittal in which he says, "If this firm is to survive." Those are his words, not mine. I think it is the best way to make a company like this survive, or Flyer Industries, or McKenzie Seeds or Manitoba Oil and Gas Corporation or any other corporation of that nature is to have the facts laid out clearly so the public is in a position to judge whether or not certain subsidies are in the public interest. To try and make a company appear to be making a profit for the taxpayers when it is not is not helpful in the long run and that is what happens when one completely capitalizes all of the debt that a Crown corporation has. It certainly can make the books of the corporation appear much better. I'm certain that is not in the best interests of public policy and understanding what sort of public policy decision should be made. That's the reason I raise these points, Mr. Chairman, for the benefit of the Minister of Co-op Development.

The Minister also raises the question of \$50 million of previous losses with respect to the corporation. I point out to the Minister and for the record that that has already been written off. The fact that the initial deal was made with people who were less than honest has been written off. That cost is not reflected in the \$184 million that is here now. It is still reflected in the fact that the people of Manitoba are paying about \$300 million a year in debt servicing costs, or the various long-term debt that they have incurred.

But I'm not even talking about that, so I wish the Minister would not cloud the issue by injecting that particular piece of history into this now because the government wrote that off over a year ago and it's not reflected in here at all.

HON. J. STORIE: Well, by injecting a piece of history, I think it's important.

We're talking about investment that has been made, an investment that was initiated not by myself or the current government, that's an important piece of history. What we have to determine now is what we are going to do with that investment.

For four years, and I read into the committee record last year, what the record of the previous government was with respect to that investment and it's a dismal record. The board minutes testified to the fact that the previous government could not make up its mind, would not make decisions in the best interests of that corporation. — (Interjection) — The member asks how much it loses, I'll deal with that in a minute.

Mr. Chairman, it is important to recognize the history of this company. It's important to recognize that when we took over in 1981, we were faced with the serious decisions and one of the most important ones was, what are we going to do with this investment? It is an investment that has been made by previous governments, commitments on behalf of the people of the province, significant commitments in terms of the community of The Pas and the surrounding communities, and we were left with a difficult decision.

With the assistance of the Federal Government, a decision was made to do an upgrading. We said there is commercial viability within this project. It can be a success. A number of things have to be done.

In succession, we have taken on those challenges. Clearly, the current year - not the one we are considering, but the current year - has not followed in any way actually the projections that we made. There are a variety of circumstances surrounding those particular problems and they have been discussed before.

But I put the challenge back to the Member for Turtle Mountain. Coming into office, facing essentially two decisions, two choices, what do you do? Do you turn your back on the investment? Do you make some decisions that you think are going to be in the best interests of the corporation in the long run and the taxpayers? We chose the latter. We will be here defending the decision we have made.

I think that throughout the last three years, we have taken the tough decisions that are necessary, including the board of directors committing to layoffs and so forth, tough decisions, decisions that should have been taken by the previous administration but weren't.

We can rehash history and decry the fact that we got involved in the first place back in 1967, 1968 or 1969, but that does us little good at this point. What we have to concern ourselves now with is turning this into a commercially viable operation and that's what we are trying to do.

The chairman's comments in his letter of transmittal refer to the fact that that's our objective, and in terms of the corporate policy and the shareholder's objectives, they're one and the same and that is to do those things that are necessary to allow us to show under current circumstances, giving the current financing, an operating surplus. We're doing those things as we can. Some of them are going to be painful decisions, but they will be made and that's part of the commitment as well.

MR. B. RANSOM: The Minister uses the term "commercially viable." By commercially viable then, does he mean that he wants the financial statement of Manfor to show a break-even position? Is that what he considers to be a commercially viable operation, even though at the end of this year the taxpayers will have, if the projection holds, in the range of over \$200 million invested? Now is the Minister saying that he will consider it a commercially viable operation if the taxpayers are getting no return on their investment as shareholders, but that the company's balance sheet will show at least a break-even position?

HON. J. STORIE: We've been through this at the last committee and I said before that obviously the shares that we hold we would hope that there is some return. Our immediate objective obviously is to create an operating surplus on the budget and that's why I go back into the history.

I'm not a financial analyst nor an accountant, but I guess at some point you consider previous investments, those investments that were made in the previous 16 years, some costs, there isn't a lot you can do without it. What we have to do is go from this point forward

and say can we turn this into a corporation that achieves the best result and that's what we're trying to do.

MR. B. RANSOM: Achieve the best possible result is rather a nebulous goal. I'm asking the Minister if he would consider Manfor to be commercially viable if the balance sheet shows at least a break-even position? If he comes here and shows, instead of a \$9 million-and-some loss, he shows a one-dollar profit on the books of Manfor, will he consider that to be a commercially viable operation?

HON. J. STORIE: Well, Mr. Chairperson, I would certainly say that's a significant improvement. As I indicated earlier, that we would like to see a return on our investment and there is provision for it. We have shares outstanding and dividends can be paid on those shares. The ultimate goal is I suppose to have Manfor return to the shareholder and to the province all of that which has been invested in it over the years. I don't know, and I don't know whether the member's suggesting that that's a realistic possibility, but obviously that is a goal.

MR. B. RANSOM: I'm not the one that's throwing these terms about, Mr. Chairman, it's the Minister who is throwing these terms about and talking about commercial viability. So I'm simply trying to understand what the Minister means, because if I don't understand what the Minister means, how can I debate it?

So if he talks about commercial viability, I would just like him to tell the committee what that means. If it means that the balance sheet shows at least a one-dollar profit, fine; that's one position that the Minister can take. If it means that the taxpayers should at least get 13.54 percent or whatever, the going cost of money is to the taxpayers for their debt, if they're to get at least that return on the \$200 million-and-some invested in the corporation at the end of this year, then that could be another measure of commercial viability.

So I would just ask the Minister once more if he could simply tell us what his definition is? I can even tell him that I don't intend to debate his definition. We can do that at other times and we don't have to do it before this committee. We're here to find out something from the management of the company more than we are to debate with the Minister, so if he could just try and tell us his definition of commercial viability, then we would appreciate having that on the record.

HON. J. STORIE: My definition of viability is a corporation that can report an operating surplus. The member is obviously concerned about the investment that is made and whether there's any return to the people over the long term of that investment.

We believe, and we said last year at the committee, that the projections are that the current operations, including the upgrading, can be recouped over a 10-year period. And commercial viability, I suppose, from the point of view of taking the corporation where it exists today, given the refinancing, given the upgrading, is certainly at a minimum showing an operating surplus.

MR. M. HARVEY: Mr. Ransom, as far as the board is concerned, what we are trying to achieve is a company

that is performing - I was going to say as well as other forest products' companies, but that's probably not a very good standard nowadays. I don't consider my job would be well done unless we were returning some dividends to the owner. I suppose my definition would be is could you sell it? Could you sell it as a commercial concern? - that's what we would be targeting for at the board level.

I realize that you addressed the Minister, but I wanted you to know what my thinking is as chairman with respect to commercial viability because I didn't want this business of returns to the province to be misinterpreted by me. I'm not trying to cover up the commercial performance of the company in any way, shape or form, but I do believe that there's going to be tough sledding ahead for this company and that we all should understand what is it doing now in terms of the Manitoba economy, without losing sight of what my intention and the board's intention are, is to make it as good as any other investment of that nature.

Now, I hesitate to use those terms because of forest products' investment. The majority of them right now are not that attractive, but I would hope that in the future that Manfor will come into its own and be able to carry its way with an operating surplus that's somewhere related to the size of the investment.

MR. B. RANSOM: Just to follow up on the statement then that Mr. Harvey just made about being able to sell it. Could he get more for it this year than he could last year? Is it worth more now, aside from the additional investment that went into it?

MR. M. HARVEY: In my view, there are two things that have to deal with what it's worth. One is what is the market potential in that particular industry which I think is extremely doubtful right now because of overcapacity. It's worth more in terms of replacement value, if you're going to build that mill, of course. We already indicated to you that St. Regis built a mill similar to ours in recent times at a cost of about \$350 million. But unless the market improves, unless the things turn around in the marketplace, no I don't think it's worth - it's hard to tell what the market price would be - but I guess it would be very difficult to sell a forest products' company at the moment, until the market stabilizes in some way. Replacement value, yes, it's worth more.

MR. B. RANSOM: Well, the shares of Abitibi-Price and Consolidated Bathurst and MacMillan Bloedel are all selling higher, some substantially higher than they were on the 52-week low.

MR. M. HARVEY: Yes, I've read the same thing, and I've also read the analysis to that. It seems to me that, if I remember the market letter that I read, the heading was, "Forest Product Shares Turn Out The Lights." I had some difficulty in determining any analytical reason why those shares should be up, and I believe that's what the analyst was telling me.

The larger companies may be able to make a profit on currency relationships, I don't know that. With respect to a one mill Manfor operation which was a fairly narrow product band, I would guess that unless the prospective investor could see some future,

considerably that would take care of his investment, unless he could see that definitely, it would be difficult to see a mill of this nature at this time.

MR. CHAIRMAN: Mr. Johnston.

MR. F. JOHNSTON: Mr. Chairman, the statements in the letter from the Chairman, and some of the statements he made this morning, would indicate that there is going to be, although it won't happen in the next while he says, the performance of the mill is going to depend on awful lot on the Super Performance Kraft, the SPK. He indicated that there was a company, I believe St. Regis, who had gone out of this business. Are there other companies or mills in this particular business?

MR. M. HARVEY: There are other companies that manufacture flat multiwall, which is not quite the same as St. Regis. The difference between our product and St. Regis product and the other ones is one of strength. If you can manufacture a multiwall sat sheet that is strong enough, then the bag maker can reduce the bag by one ply. That's a significant reduction in cost to him and makes the paper more valuable.

But to answer Mr. Johnston's question more directly, there are other firms that make multiwall sheets. We believe our edge comes in our strength.

MR. F. JOHNSTON: The fact that St. Regis is going out of the business, has there been any research done to see if there were other people entering into this market because they have got out of the market?

MR. M. HARVEY: Mr. Chairman, through you to Mr. Johnston, we don't have the capacity for active research. We have done some enquiries. The point that seems to be the most persuasive is that to get into the kind of paper we make would require an investment in the order of the one that St. Regis made, possibly more. We don't anticipate that there would be many firms who are willing to do that at this time.

MR. F. JOHNSTON: I wonder if the chairman would make that a little clearer for me. You mentioned the investment was about 365 million. As I understand it, Manfor hasn't spent that much to get into this business, to make the change to that specialty. Or are you speaking of the investments before the latest ones?

MR. M. HARVEY: Mr. Chairman, that's correct. Manfor was already in the multiwall business and did manufacture a sheet at one time which, prior to St. Regis, was probably the strongest sheet around in the North American continent. So our process of getting up there again was not as expensive as it would have been, had we been required to build a new mill. The St. Regis process was a new mill.

One of the things that we are considering at this time is that, if someone were to build a mill like ours, it would cost in that neighbourhood. But, because we already had the process, had the fibre and were only required to upgrade some of the equipment in order to sheet back up to those kinds of specifications, our investment was considerably lower. Had we started from scratch though it would have been in the order of that.

Tuesday, 18 June, 1985

MR. F. JOHNSTON: Mr. Chairman, what I'm really trying to find out is it would sound as if Manfor is giving the indication - and I use the word "sound" because I don't think that they are doing that - that they are going to be the only people in this business at this price, which means there is no competition and you're going to get all the business. I have never seen that happen before, I have always recognized that there is competition.

What percentage of this market do you feel you will have with the competition that's out there presently, and possibly new competition? There has been a large investment put forward. What is the research on the percentage of market you expect to have when, as you mention, it starts to pay off? You said it won't happen in the next while. You're indicating it will open in January of next year; you have said you're working in-house; you have not made a decision as to who your sales personnel will be throughout North America, which is very important as far as contact is concerned. On what basis do you feel that this product is going to have the effect on the company that you say it will, taking into consideration the fact that other people are in the business as well?

MR. M. HARVEY: Mr. Chairman, Mr. Johnston, we are targeting about 10 percent of the multiwall market. We are not fortunate enough to be the only ones that can make multiwall paper. What I was attempting to project was that the strategy was based on making a strong multiwall paper. Other people will continue to make multiwall paper; we are hoping to get 10 percent of the market which would be all the multiwall paper we could produce.

The St. Regis people took about 250,000 tons which is, of course, greater than Manfor's total production, but the particular product that we're looking at is 10 percent of the market we're looking for.

MR. D. GOURLAY: Getting back to the Prendville situation, I wonder if the chairman, when he brings back information, can tell us who initiated the discussions with respect to this deal, and also the production from the timber from the Prendville plant in the last couple of years, and details on the negotiation of the price. Did it start at 700,000 and end there, or did it start much higher and end up at 700,000.00?

MR. M. HARVEY: That was the negotiated price; who opened discussions; and what production Prendville had?

MR. D. GOURLAY: Yes, some track record of the last few years on those timber quotas as to what production Prendville was actually turning out, and the state of the mill itself that they were using, whether it needed a lot of upgrading, whether it was in a position to be able to produce if the markets warranted.

Also, with respect to the possibility of the lumber sales being handled by a central selling wholesale agency, I wonder if the Minister or the chairman can indicate what companies have been approached. Is this information available as to who might be able to handle this selling agency for the production of lumber?

MR. M. HARVEY: Mr. Chairman, with respect to trying to find a company that might market our lumber

production, I understand that there have only been informal discussions. I don't know the sensitivity of the situation, or whether there is any reason that we should be quiet about them. I would like to defer answering, not in the sense that they're sensitive with respect to the company's name, but with respect to whether we can make a deal with them or not.

MR. D. GOURLAY: Perhaps we could pursue that matter the next time we meet.

MR. M. HARVEY: I just wanted to make sure that we had these things. We can prepare a report. If it's your wish to wait until the next meeting, we can do that, or we can prepare a written report for the Minister which he can share with you with respect to what we can find out about this Prendville operation.

MR. D. GOURLAY: Well I think that we would like to have some information at the next sitting of this committee . . .

MR. M. HARVEY: When would that be?

MR. D. GOURLAY: . . . to answer some of the concerns that we have.

MR. M. HARVEY: I wasn't certain whether you were asking for that or asking to hear next year when I appear again. So we will get something in the Minister's hand prior to your next meeting, which would be when?

MR. CHAIRMAN: The next meeting of the committee is scheduled for Thursday, two days, Thursday the 20th. The original intention was to consider McKenzie Seeds at that time but if it is the will of the committee we could receive that information at that time . . .

MR. M. HARVEY: When was the request . . .

HON. J. STORIE: Mr. Chairman, if those are the only two outstanding issues that members wish to raise at this time, I would undertake to give, in writing, to all members of the committee, responses to those particular questions, given that we have to return — (Interjection) — pardon me?

MR. D. GOURLAY: We're not near finished yet.

MR. M. HARVEY: So can I have a date that this information is required, Mr. Chairman?

MR. CHAIRMAN: The next meeting of the committee is Thursday of this week.

MR. B. RANSOM: Point of order, Mr. Chairman. I believe that the committee has been called to consider McKenzie Seeds on Thursday.

MR. CHAIRMAN: Perhaps for the benefit of the committee, I'll read what was said in Hansard. It was assumed that, if the committee completed its considerations of Manfor, McKenzie Seeds would be called. If not, it would continue with Manfor.

HON. J. STORIE: We're scheduled for Thursday, then.

MR. CHAIRMAN: That's what it says in the statement in the House. So I would assume from that if we don't complete Manfor today we would continue on Thursday.

Mr. Harvey.

MR. M. HARVEY: We would undertake to have that information in our Minister's hands by Thursday.

MR. B. RANSOM: Mr. Chairman, I would like to return in the eight minutes or so that are left here now to the discussion we were having earlier about the cost to the taxpayers of owning the corporation, because I continue to hear across the table the comments off the record by the Minister in charge of Co-op Development, talking about the Tories closing it down and that sort of thing.

Perhaps it needs to be understood what the significance of this information is. When we're talking about a cost to the taxpayers, this is something that is going to be very relevant for any government that is seeking a partner, for example, because if the company was to be operated by someone in the private sector, all of the benefits that Mr. Harvey referred to earlier would still flow. The taxes would still be paid to The Pas; the income taxes would still come to the Government of Manitoba. All those benefits would still be there. So the amount of money that the government and the taxpayers have now invested in it is, of course, extremely relevant to any kind of consideration that the government might give to seeking a partner, a private sector partner or whether the government was considering to sell it.

As the Minister knows, there were discussions undertaken previously in terms of seeking a partner. I believe that the government is, itself, seeking either buyers or partners for other Crown corporations. I believe I'm correct, the government has been looking for that with respect to Flyer Industries. So I take it that is not a principle that the government will not examine. I think both the government and ourselves are interested in seeing the corporation continue to function, continue to employ people, continue to put all of those benefits into the community, but at the minimum cost to the taxpayers of Manitoba.

My question then for the Minister is: is the government pursuing any kind of private sector involvement in Manfor? Are there any negotiations going on to seek a partner, or perhaps even to look at the sale of the corporation?

HON. J. STORIE: Obviously, the decision to seek a partner or to find someone to purchase, take over responsibility for Manfor is something that we would be prepared to consider, assuming that someone came forward and could offer the appropriate rewards to the province; also that there is some consideration to the effect that changes would have to The Pas and its communities.

I have said, and say consistently, that the commitment has been made on the part of the government to Manfor. We see that as a long-term commitment, both in terms of the operations there and their continuing positive impact on the outlying communities. I think that's why

it is important that Mr. Harvey, as chairman, put on the record the other side of the question of the cost to the taxpayers. Certainly if you go to The Pas or you go to Cranberry or Wanless or Wabowden or any of those communities, the benefits that accrue because of the operations there are felt much beyond the community of The Pas.

So I certainly wouldn't rule out the possibility of a joint venture, of other private participation in Manfor, given that certain fundamental issues are resolved that would support the communities that exist there and the activities that are ongoing. Essentially, that's the bottom line. I think Mr. Harvey has a further contribution.

MR. M. HARVEY: Mr. Ransom, I believe I indicated it last year - I may be wrong, I thought I had - that one of the difficulties facing the mill is related to the economies of scale and one of the opportunities that exists in the mill is the size of the annual allowable cut. If you put those two things together, there appears to be a potential to increase the size of the paper mill, but the cost of doing that we believe, and the wisdom of doing that would probably be better done if we could come to some conclusions with a partner in order to do those kinds of things.

We have been, not actively pursuing for some of the very reasons that you talked about earlier until we can get our own house in some kind of order, but we are always, of course, on the lookout for people who may be interested in some kind of a joint venture that would allow us to talk about things of such magnitude as a second paper machine, or maybe even white paper. So that's about where we are on it.

I think there are some of us who believe that's what the final solution to some of the difficulties that we have might be, the fact that we have more wood there and if we can find a more efficient way of capitalizing on it, then that would be desirable but there is a fairly large price tag on that and maybe some marketing implications that a partner might be able to make a little less onerous.

MR. B. RANSOM: Would Mr. Harvey agree then that the taxpayers of Manitoba would be better off if they could somehow reduce that cost of carrying the \$200 million investment, speaking at the end of the fiscal year we are in, and at the same time if they could still be guaranteed to the extent that guarantees of those kinds of things are possible, that the company would continue to operate; that what we're looking at is if we can reduce that cost of investment and have that company continue to operate, that the province and the taxpayers would be better off?

MR. M. HARVEY: Mr. Chairman, no, I have no hesitancy in agreeing with that. Our objective is just that. I said, when I was talking to you about the other things that flow from the company to the province, that they would also flow from a private company and if we could get this company, either through a joint venture or through some other way, into the position of having an operating surplus each year, then certainly we would get those benefits and then some. My concern was really the reverse. I wasn't trying to do anything more than say that this company is worth a lot of money to the Province

Tuesday, 18 June, 1985

of Manitoba. It could be worth a lot more if we could make it operate efficiently and return a profit.

MR. CHAIRMAN: Mr. Cowan, 10 seconds.

HON. J. COWAN: For 10 seconds, I haven't said very much. Perhaps we can wait until the next meeting on that, although I do appreciate being recognized by anyone.

MR. CHAIRMAN: Do you want the committee to rise? The chairman has one other correction.

MR. M. HARVEY: Yes, I have a correction for Mr. Gourlay. I underestimated the cost of the Lamb Building

by a considerable amount and I would like to correct that.

Our original cost to the Lamb Building was \$80,000 and the renovation and repair was \$106,000, for a total of \$186,000.00 and we chose that over another building in the town, the LGD Building, which they were looking to sell, but they wanted I think in the order of \$250,000 for it and it was about a similar sized space. So I did underestimate that and I wanted to give you the correct information on it.

HON. J. STORIE: Committee rise.

MR. CHAIRMAN: Committee rise.

COMMITTEE ROSE AT: 12:30 p.m.