LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES AND NATURAL RESOURCES
Thursday, 17 July, 1986

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. C. Santos (Burrows)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Mr. Cowan, Hon. Ms. Hemphill, Hon. Mr. Mackling

Messrs. Maloway, Nordman, Orchard, Santos, Scott and Smith (Ellice)

APPEARING: Mr. Gordon W. Holland, General Manager and Chief Executive Officer, Manitoba Telephone System

Mr. D.J. (Don) Plunkett, Operating Officer, MTX

Mr. Maurice J. Provencher, Director of Finance, Manitoba Telephone System

MATTERS UNDER DISCUSSION:

Annual Report of Manitoba Telephone System

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MR. CHAIRMAN: Committee on Public Utilities and Natural Resources, please come to order.

We have been considering the Annual Report of the Manitoba Telephone System.

The Honourable Minister.

HON. A. MACKLING: I'm sure the Honourable Member for Pembina is concerned as much to hear answers to his questions as he was putting them. So I'm sure he'll listen carefully to the further responses that I'll call upon Mr. Holland to make rather than myself in connection with the general questions first. Then we'll get some specific responses to other questions from the President of MTX, Mr. Plunkett.

Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, there has been an update of some of the figures that I reported to the committee on July 10. Those who are under the heading of benefits occurring to MTS through involvement in MTX external contracts and the figures now, there are over 200 person years of employment of MTS personnel since incorporation of MTX Telecom services Inc.

There have been $1.7 million in net revenue contributions in 1985-86, and $1.1 million in 1984-85. This net contribution resulted from MTS loaning employees to MTX Telecom Services for projects and consulting contracts.

MTX currently provides employment to 40 MTS employees in Winnipeg, Saudi Arabia and New Zealand. Since 1982, MTX has placed $8.8 million in orders with Manitoba firms.

There was a question, Mr. Chairman, last meeting, asking for the effective interest rate for the 10P and 10J issues. The issue date of debenture Series 10P was November 1, 1977. The issue carried a 4.5 percent per annum interest rate, payable semi-annually. The comparable domestic interest rate on November 1, 1977, was approximately 9.4 percent. The effective interest rate including foreign exchange premiums on the redemption of the principal and foreign exchange premiums on interest payments was 8.5 percent.

The Swiss franc was valued at 49.79 cents Canadian on November 1, 1977, and was 58.29 cents Canadian on November 1, 1983, when the 10P debenture series was redeemed.

We're unable, of course, to determine the effect of interest rate for the 10J until after the date of redemption, which is February 28, 1987. If the March 31, 1986, redemption rate continues until February 28, 1987, the effective interest rate would be approximately 18 percent.

HON. A. MACKLING: Before Mr. Holland moves onto other detail, in respect to the further information that Mr. Holland has given in respect to the multi-million dollars in cash flow, both to MTS and suppliers in Manitoba from the operations of MTX, as he indicated, $8.8 million in product sales and very substantial payment in wages to workers, I'm asking the Telephone System to give me the macro-economic dollar gains from those initiatives because, as we know, when people are gainfully employed, they pay taxes, they consume goods, there is a multiple benefit from employment and from the manufacture and sale of goods in Manitoba. It's a very substantial, very significant set of figures, as is indicated, involving many millions of dollars. But we will get all of those economic multipliers and develop them on a fair accounting basis and I'll provide that information probably to the member, should he wish, or I can always provide that information in the House later on.

Now I'll ask Mr. Holland to finish the other question.

MR. CHAIRMAN: The Member for Pembina.

MR. D. ORCHARD: Mr. Chairman, I think maybe a comment might be appropriate to the Minister's remarks.

When MTX was established, it is my clear understanding, and I think the Minister can confirm this, that MTX was established under the premise and the promise that it would contribute net income to the Manitoba Telephone System. The use of surplus staff to the Telephone System was not a consideration. The spinoff of purchases to Manitoba firms and to others was not a consideration.

We have now the Minister, rather than asking, in my opinion, the questions as to what went wrong, this Minister is caught in what appears to me to be an attempt to justify MTX at all cost, political justification if you will, for MTX.

The rationale that he has laid out this morning of the benefits and now we're going to do spin-off and we're going to do taxes paid and a whole host of things to justify MTX and their continued operation when they haven't lived up to what they said they were going to do when this government first approved of the setup of MTX.

If we follow the Minister's analogy, and it was the analogy used by Mr. Holland in his introductory remarks, that MTX was useful because it employed surplus staff. Presumably the surplus staff, had they been kept on and paid by MTS, would have resulted in either a deficit at MTS or a substantially higher rate application before the Public Utilities Board.

Now, following on the Minister's analogy and Mr. Holland's analogy, then there should be no Crown corporation in this province ever to get in trouble and indeed there should be no private sector firm ever get in trouble in this Province of Manitoba.

Because when you are faced with difficulties of surplus staff and potential losses in revenue because of those and potential net income losses, the solution, if we follow the Minister's convoluted irrational reasoning, would be you simply set up a wholly-owned subsidiary. You farm out surplus employees to them; you find something for them to do.

Versatile would not be in trouble if they simply set up a subsidiary corporation and put half of their production line staff in that corporation. We would not be selling Flyer Industries right now if Flyer Industries had simply set up a wholly-owned subsidiary and farmed out half of their staff and management to them.

That is the weakest argument I have ever heard to justify and to try to cover losses in MTX that I've ever heard. It borders on the ludicrous, for the Minister to try to justify this, rather than, as he is mandated to do as a Minister responsible for the Telephone System, to get to the bottom of MTX and what it's doing in Saudi Arabia, and make sure that Manitoba ratepayers are being protected. Not MTX being protected and the MTS being protected for decisions they foisted on this government, but rather the ratepayers of Manitoba who elected them being protected. When he uses those kinds of reasonings for justification, he is derelict in his duty to the people of Manitoba.

HON. A. MACKLING: I have come to appreciate that there is no way that the honourable member and I will agree. I have come to accept that there will be times when I will have to sit and listen to the philosophic ravings of the Honourable Member for Pembina who has a fixed perception of life and politics and maintains that. Notwithstanding the logic or the evidence that proves him wrong, he will consistently maintain the position that he thinks is correct.

The Chief Executive Officer has just now placed facts before the committee which unquestionably show a very significant economic benefit to the Manitoba Telephone System thus far in the operations of MTX. Now, the honourable member can shrug off those benefits and say that they're meaningless. He can say anything he will, but $8.8 million worth of goods have been purchased from Manitoba for employment in the Middle East, in Saudi Arabia. Through the operations of MTX, 40 full-time employees involved in jobs for MTX, a total of $3.1 million in money paid by MTX to MTS for employees loaned from MTS for their operations. Those are economic facts; they're not philosophic fiction.

The honourable member wants to say that black is white. He can't do that. There has been a very significant benefit to MTS in respect to those returns.

He talks about the purpose of MTX. I want to read what the mission statement of MTX is, a mission statement that was fully developed in 1982, and these are the missions:

1. to be a high-quality provider of telecommunication services outside of Manitoba in areas where MTS has assured expertise and resources;
2. to be financially self-sufficient and provide an acceptable return to MTS on its resources utilized;
3. to be a good corporate citizen;
4. to provide a rewarding, challenging, and personal growth environment which develops employee competence, proficiency and satisfaction.

The honourable member knows that every telecom in North America is involved in doing like initiatives, taking advantage of the expertise and the technology that we enjoy, to export that to areas where they don't have that technological expertise, and bring a return to our society in the export of that knowledge and understanding. That's what we're involved in.

The honourable member may think that's objectionable. I don't understand why he should be critical of that when every telecom is trying to do the same thing, and it makes economic sense that if we have highly-skilled people and technologies that we can sell and benefit other people elsewhere at the same time, why we shouldn't be involved in that. It makes absolute good common sense and it's a net return to the MTS overall.

He can try to fudge it any way he wants, but those millions of dollars have been spent in Manitoba and those millions of dollars have flowed to pay salaries for people, and those millions of dollars have flowed into Manitoba.

If the MTX had in every signal year of its operations run at a loss, a bookkeeping loss, of $100,000 or $200,000, we would still be very much in the black in the total economic return from the MTX operation. The chief executive officer will be reviewing the year by year profit and losses of MTX shortly, Mr. Holland.

MR. D. ORCHARD: Mr. Chairman, the Minister failed to understand the case I'm presenting. He can bluster and complain about my motives and why I'm questioning his corporation, but you know, Mr. Chairman, anyone who sat here Tuesday when we were going through the MTX Annual Report and would highlight, as the Minister no doubt has an unedited transcript of the questions, to say that I am fudging the figures at MTX is a little bit of a reverse role. The Minister should choose carefully his words if he's going to make any accusations of fudging figures.

Mr. Chairman, I submit to the Minister, whether he cares to believe it or not, that MTX was set up as a corporation that could provide net revenues, profits to MTS, those profits would be used to subsidize telephone rates and keep them low in Manitoba. It is yet to be proved that that has, No. 1, happened; and No.2, will happen, because we haven't got the answers in the financial report of MTX that's before the committee, let alone the financial report of the fiscal year ending March 31, 1986, some three and one-half months ago. We hoped to be able to talk about those figures today.

For the Minister to sit there and not be concerned when his government has given permission, they've even modified the last rate application, but in four years consecutive, MTS has gone to the Public Utilities Board for rate increases paid by Manitobans - these ordinary Manitobans that Mr. Mackling and his colleagues so often talk about defending - and when they go the the Public Utilities Board as a result of 1984-85 operations of MTX, they go there having to cover a $250,000 loss.

Now, Mr. Chairman, the Minister, as I've said earlier, will use any amount of reasoning and justifications to defend what he has allowed to happen under his stewardship of MTS, but the bottom line is we are here to provide telephone service to Manitobans, not to subsidize operations in Saudi Arabia, not to risk capital in Saudi Arabia, which is every evidence of what we are doing at MTX right now. We are putting money into MTS that we are borrowing. Right now, this Minister should be aware that this province is under another credit watch because they believe our borrowings have been too high for the population we have. I believe that now, with the $8.5 million that has been further advanced to MTX in the last number of months - I don't know exactly when - and the subsequent investment in Cezar Industies, that that is all borrowed money.

The credit rating agencies are saying to us, you're borrowing too much and if you continue to borrow too much, we're going to reduce your credit rating and we're going to charge you more interest, which all Manitobans are paying. I'm submitting that this MTX operation is a drain on the borrowing capacity of the province and it hasn't lived up to the mandate of providing net revenues to cross-subsidize the telephone service to ordinary Manitobans.

This is not a shareholder-owned company, in MTS and in MTX. This is a company that's owned by Manitobans. Shareholders in a private company, which are competing internationally, as Bell Canada is, as Bell in the United States is, as other private telephone companies are, they are doing it at the risk of losing money for their shareholders and if they lose too much money for their shareholders, their share values drop and some heads start to roll in those private sector corporations. If money is lost in MTX, it is the Manitoba ratepayers that pick it up because this government will approve a rate increase for MTS, and there will be no heads rolled when those losses are incurred.

There is a vast difference between private sector companies adventuring into the international telecommunication market and our Crown-owned corporation doing it, because you have not been guaranteed net returns, nor will you be guaranteed net returns and, therefore, Mr. Chairman, this Minister and the NDP Government are putting Manitoba ratepayers on the line, involuntarily.

I submit to this Minister that if he were to do a survey of your telephone customers throughout Manitoba, they would tell you in no uncertain terms that they don't want you risking money in Saudi Arabia when we have party lines in rural Manitoba and long distance, after you phone some 300 numbers and a number of communities in Manitoba where the long distance goes beyond your 300 people in a telephone directory, those are areas where people in Manitoba say the money should be spent, and they do not appreciate this kind of government-approved adventurism, which is losing money.

If the Minister doesn't understand that, I repeat what I said on Tuesday. He is derelict in his duty and maybe he should be replaced.

MR. CHAIRMAN: Do the members want to debate the arguments before they hear the factual reports of the General Manager, or do they want to debate first and then hear the report?

MR. D. ORCHARD: It depends how long he wants to debate, Mr. Chairman.

MR. CHAIRMAN: The Honourable Minister.

HON. A. MACKLING: Mr. Chairperson, I'm here, as other members are, to hear the details of the report. The honourable member has asked questions and he's made very inflammatory speeches, not only before this Committee, and he continues to do so, but he does it with the media, despite the facts, and continues to rant and rave that somehow an operation which is consistent with what other telephone companies are doing is putting at jeopardy our local rate systems.

That is utter and complete nonsense. The honourable member raves about our investment, our being involved in off-shore activities that is draining monies away from our local system.

Let's read into the record more facts for the honourable member, and I know these facts won't trouble him to change his mind because he has a fixed view of things. But let's look at some of the further facts.

MTS personnel have for some time been loaned to Bell. Now that's a private corporation, a private telecom, and they're concerned to be involved in the international scene. We have shared with Bell in a Saudi Arabian project, since the project began, the net revenues to the Manitoba Telephone System. I underline those words "net revenues to the telephone system." From that arrangement are as follows: 1978-79, $151,000 net revenue to the MTS; 1979-80, $388,000 net revenue; 1980-81, $252,000 net revenue to the MTS; 1981-82, $270,000; 1982-83, $320,000; 1983-84, $258,000; 1984-85, $117,000; 1985-86, $102,000.00. All of which is net gain to the corporation by the corporation being involved with another telecom, a private telecom, in selling expertise and technology in Saudi Arabia.

The honourable member would say that is wrong. We shouldn't be involved; we shouldn't have made those millions of dollars in selling the technology which we enjoy to another part of the world. To him, it would be wrong that we do say. I think that's his view.

In respect to the operations of MTX itself, in 1981-82, they lost $314,000; 1982-83, they made $79,000.00. That's the bottom line. In 1983-84, they made $262,000; 1984-85, we lost $251,000; 1985-86, the books aren't closed on that yet, I assume - haven't been audited yet - we expect to lose about $90,000.00.

We're going to make more money in some years than we do in others. But what we're doing is involving our staff, our highly-trained expert staff in highly-creative, challenging activity, gaining new experience and in the process we are involving the foreign buyers of our technology in buying our equipment, buying not only our expertise, but our hardware.

The honourable member says, well, it really doesn't matter, you know, that we sell $8.8 million of goods into another part of the world. I think those are very significant economic factors. That's a good enterprise and I will give the macro-economic benefits to the House and to the committee, but I will be able to show that we have been a very significant net gainer in those activities where we export our technology.

So the honourable member will continue to debate and say, well, we're doing that and jeopardizing our local rate system. That is utter nonsense, Mr. Chairperson, and I put that on the record.

MR. D. ORCHARD: Mr. Chairman, just so that members of the media don't get totally misled by this Minister's last statements: The figures that he gave for net profit to the corporation, I believe, is the way he described it, is the revenues and I'm not certain whether the $151,000, the $388,000, etc., are recoveries - they are recoveries from the loan of personnel to Bell Canada, personnel.

Now, I'm not certain whether that represents recovery of the entire wage package from which the $151,000 in wages are paid, or whether that is surplus to it. I presume it's surplus to it because he talked about net contribution.

So, in other words, in a given year, and let's use'79-80, there were $388,000 of net contribution. That might mean that we farmed out enough staff to bill Bell Canada some $2 million, and our salary costs and benefit costs in total may have been $1,612,000, so that we billed our staff out to Bell Canada for more than what we had to pay them for staying at home. That's, I believe, where he's coming from.

Mr. Chairman, as the Minister quite well indicated, that has been carrying on for a number of years. A number of those years of substantial gains were years in which we were government. There was never an argument about us loaning staff to Bell Canada. Because you know what, Mr. Chairman, if Bell Canada's venture in Saudi Arabia lost money, we still got paid and we still made that money. Bell Canada assumed the loss and it was ours to gain by loaning our personnel to Bell Canada.

Contrast that and let's start looking at the year'83-84 where the net contribution was $258,000, decreasing the next year to $117,000, decreasing the next year to $102,000, while at the same time, if we follow those years, MTX had a profit of $262,000 and then a loss of $251,000 and then a loss of $90,000, as we moved from the process of providing personnel to Bell Canada to doing it ourselves. We moved from an area of good profit to an area of losses. The Minister has just exactly made the case that I have put before him. He's giving the media the only numbers they need to prove what I'm saying.

Mr. Chairman, if you take a look at since MTX has been established, there is a loss of $655,000, a profit in two years of $341,000, for a net loss of $314,000.00. Just 10 minutes ago, this Minister said that my allegations that MTX has lost money were just not true. But he just confirmed what I said. He's done it at a time when they are decreasing their participation with Bell Canada, who, if they lose money in Saudi Arabia, it doesn't affect our position of providing personnel and staff to Bell Canada. We still make the profit, as we did from 1977 to 1981, as the NDP administration did for the first two years. When we have started doing it ourselves, our net revenues from farm-out of employees to Bell Canada has gone down and our losses are going up, when we're doing it ourselves through MTX.

Case proven, Mr. Chairman, the Minister need say no more because every time he says something, he gets himself dug in deeper.

HON. A. MACKLING: Well, you know, we now hear from a member who was the Minister when these initiatives were started and obviously he's saying that he was hoodwinked by the corporation, or something, led into . . .

MR. D. ORCHARD: Mr. Chairman, on a point of order. There is no area of my remarks that this Minister could say that I believed I was hoodwinked by MTS. I told this Minister in my last remarks that the process of farming personnel out to Bell Canada was an appropriate one because there was no risk. We did not share in the losses; we make profits.

What I said to this Minister is when we assumed those jobs ourselves through MTX, we assumed the risk of loss which we are incurring. I did not say we were hoodwinked by MTS in participating with Bell Canada. I suggest this Minister has been less than frugal and intelligent in his administration when he has allowed MTX to come along. That's what we're discussing, not the Bell Canada contract, Mr. Chairman.

MR. CHAIRMAN: There is no point of order.
The Honourable Miniser.

HON. A. MACKLING: Mr. Chairperson, the agitation and the displeasure of the honourable member at my words obviously indicates that I score a point. He is discomfited because . . .

MR. D. ORCHARD: No, it's just that you told a lie.

HON. A. MACKLING: I did not tell an untruth. I say that the honourable member is putting on a show, as the honourable member is capable of doing, of displeasure, of annoyance, of frustration, saying that all this is wrong and there's a terrible thing happening here, and he was the Minister that was involved in seeing the development of the export of expertise. Now, he says it's wrong, and then he tries to put words in my mouth that I said that we have made a profit. I said overall we've made a profit.

MR. D. ORCHARD: Where?

HON. A. MACKLING: We, as a corporation, as taxpayers, as the shareholders, have made an enormous profit because of the fact that, for example, as I indicated, in the years 1978-1979, through to 1985-86, just about $2 million worth of salaries were paid to MTS employees who otherwise wouldn't have been employed. I don't know where they'd be employed in Manitoba if they weren't employed on that Saudi Arabian contract. That $2 million is net profit to the corporation, by the export of that expertise.

In addition to that, salaries were paid all through those years, 1978-79 to 1985-86, and I haven't calculated the salaries but I'm sure there's millions of dollars worth of salaries and those people pay income tax in Manitoba and in Canada, and they spend their money. They have their homes here in Manitoba and in Canada. We, as a society, benefit from the export of our expertise.

The honourable member, while he doesn't clearly come out and say he's opposed to that, his general remarks indicate that that's the case. I'm saying that the taxpayers of Manitoba, the shareholders, are well-served by the export of expertise at gain to us; gain, not only from when we make a net profit on the bottom line of MTX, but when we employ Manitobans at high salaries that are paid to them, that they spend in Manitoba on cars and homes and goods in Manitoba. And when, as a result of their initiatives and their activities in contracts, wherever they are, there is a demand for Manitoba goods and services. Those are the facts.

Therefore, I say, all told, the operation of MTX has produced a handsome profit to Manitobans and the shareholders of MTS, not the exact bottom line in each case, because that does not deal with the macro-economic benefits that I talk about, the goods that have been purchased in Manitoba and the benefits from the services that we have sold in Saudi Arabia. Those facts speak for themselves. Anyone would dearly love to have an enterprise that created that kind of return back to its shareholders.

So, for the honourable member to say, well, you know, this is a drain on the corporation or a drain on the shareholders, is absolute utter nonsense.

MR. D. ORCHARD: I wonder if the Minister might clarify. The figures he gave me from 1978-79 through to 1985-86, which total $1.858 million, does that represent — (Interjection) — I believe you rounded it off to $2 million and I'll give you the rounding error.

Is the Minister indicating that is the total wage package recovery, or is that the net above benefits paid and recovered?

HON. A. MACKLING: Exactly the last one. That is the profit. That is the mark-up we've paid on selling those services.

MR. D. ORCHARD: Mr. Chairman, could the Minister indicate whether Bell Canada, who used our employees during those years, made a profit in their operations, for which our employees were farmed out to them?

HON. A. MACKLING: I don't think the directors of Bell Canada would yield to me their profit figures, but I think we can project that they're not doing it for love and affection; they're making money.

MR. D. ORCHARD: Mr. Chairman, the Minister's answer is really that he doesn't know; he's assuming they made money. Which is exactly the point. We made money, regardless of whether Bell Canada profited or lost in those operations for which our employees were farmed out, and that's why we farmed them out to them.

Contrast that, Mr. Chairman, with the Minister's figures of net incomes for MTX since its inception, which shows a net loss of $341,000, which we have paid.

Now, I want to ask the Minister, taking from his answers today about the benefits, the side and related ancillary benefits that MTX have given the Province of Manitoba and MTS, is the Minister saying that he and his government would be entirely satisfied with perpetual net income losses in MTX because the side benefits are so great, so that MTX can run a loss every year that they're in operation from now on, and the Minister is totally satisfied with that because there are these other benefits? Is that what the Minister is saying?

HON. A. MACKLING: I did not say that.

MR. D. ORCHARD: What are you saying?

HON. A. MACKLING: The honourable member will know that we have in our society today the multinational corporation and we have one corporation owing and operating another corporation. It depends where the profit flows. A subsidiary corporation could be well losing money, and I'm sure they do this in some instances and, therefore, not have to pay tax, whereas the parent corporation is doing very handsomely because the cost of the goods, or the services, has been balanced in favour of the parent corporation.

So, despite the fact that nominally the subsidiary corporation is operating at a loss, or very marginal profit not worth the investment, the parent corporation still feels it highly desirable because, in the total picture, they're doing very handsomely.

Now I've indicated that in respect to the operations of MTX in my view, and I haven't consulted with the board of directors of the telephone system on this, but I believe that even if the MTX bottom line figure throughout its operations was zero, it didn't make a profit; that if the net returns to the telephone system from goods and services, the demands for goods and services on it, from MTX were as indicated they had been thus far, then in my opinion it would still be prudent and a good investment to maintain that kind of operation. Because, in total, we gain. Now the honourable member may disagree on that, but many corporations in North America would agree with me, including Bell.

MR. D. ORCHARD: And most of those corporations that would agree with the Minister have shareholders who are voluntary shareholders. Manitoba Telephone

System has compulsory shareholders in the citizenry of Manitoba who avail themselves of services from MTS, through whom losses in MTX are picked up when this government allows rate increases. That's the bottom line. Mr. Chairman, the Minister appears not willing to say that he would accept a loss, but just merely break even.

I wonder if that Minister recalls the days from 1969-73 when he sat around the Cabinet table and said, we will accept some modest losses in Saunders Aircraft because it's good in employment, good to the province. The net benefit of the province is good and we'll accept marginal losses because we've got this other side which is a net up. Ask the people of Manitoba if they appreciated that psychology; that philosophy that the Minister has put on the record again as it applied to Saunders Aircraft, as it applied to Flyer, as it applies to Manfor and other money-losing operations that are Crown corporations.

HON. A. MACKLING: I enjoy very much the opportunity to have this discussion with the honourable member. I apologize to other members that perhaps it is at their expense as well, but I'm sure the honourable member would have entertained us with further questions and further discussions into his political thinking otherwise in any event.

I don't believe that public corporations should be operated without a consideration for net return, but I think that most often we have to look at macro-economic figures, not the micro-economic figures that the honourable member has a fascination for. I know that when the former Premier, now Senator Duff Roblin, launched Churchill Forest Industries and the massive giveaway that involved at that time, he thought that the — (Interjection) — macro-economics of having . . .

MR. D. ORCHARD: Were you sitting around the Cabinet table when the money was given away, Al?

HON. A. MACKLING: Well, the honourable member is interrupting. I didn't interrupt him when he was speaking, Mr. Chairperson.

MR. CHAIRMAN: Each one will have his chance.

HON. A. MACKLING: I'm sure that when they considered the kind of concessions they were making to Churchill Forest Industries, in order to get that forest industry started in The Pas, their thought was the macro-economics of having utilization of the forest which would otherwise not be exploited. The return on the employment in the North, all of that would outweigh the giveaways that they were then making to that Swiss financier.

I'm sure that it was from an honest belief that kind of economic activity, though very costly, even on paper at that time, they certainly didn't know the kind of rip-offs that were going to occur and I don't fault them for that - but those kinds of concessions to private enterprise were worth it, and our present Federal Government makes enormous grants to private enterprise. They feel that the macro-economics are worth giving the taxpayers' money away in large gobs, because there will be employment benefits, economic benefits, that overall will outweigh that gifting.

So when private enterprise governments make huge tax concessions to companies, oil companies, and make particular arrangements for banks to make sure of the survivability of the private banking system, they do that, not on the basis of the tough bottom-line profit, but the macro-economic and social benefits to society.

I believe that we have to look at the bottom-line figure very carefully. To put on the record, I was never fond of Flyer; I wasn't a supporter of Flyer. Certainly, we didn't initiate Manfor. We picked up the wreckage from the Roblin regime on that one, and the honourable member will just dismiss that as I think he must. But I think we should get on with the telephone report.

MR. D. ORCHARD: Mr. Chairman, I think that's a great idea to get on with the MTX report and the Minister's memory lapses on who sent the money and who put the money into Manfor. It will come out if one cares to reads any books on it. He sat around the Cabinet table that saw that hemorrhage of funds going out.

MR. CHAIRMAN: I agree. I think the better approach is to hear all the facts first and then debate.

MR. D. ORCHARD: Proceed, Mr. Chairman.

MR. CHAIRMAN: Are there any more reports from the Chief Executive Officer?

Mr. Holland.

MR. G. HOLLAND: At the last meeting, there was a question about current operating revenues and expenses for FAST, including interest charges.

Operating revenues and expenses for FAST, including interest charges for 1985-86 are as follows: operating revenues $498,300; operating expense $383,500, and it was explained to the committee that the FAST expenses are overstated as they include telephone maintenance and repair with those customers. We don't have data which would be necessary to segrate maintenance expense from the FAST expense. The interest charges are $574,500.00.

There was a question on the average number of Edmonton Tel personnel working in Manitoba and the average number is 40.

There was a question regarding the percentage increase in rates for private line services for alarms since we last met and the rates for private line services for alarms were increased 3 percent, effective March 27, 1986.

We were asked to provide the number of craft and maintenance and operational personnel currently employed by MTS. The number is approximately 1,250 throughout Manitoba.

We were asked to provide the net overall contribution of cable services to the revenues of the system. In 1984-85, the net contribution from cable, after full recovery of assigned costs, was $135,000 for local broadband network; $585,000 for the Greater Winnipeg area and the Inter-City Broadband Network was on a break even.

MR. D. ORCHARD: May I pose a question to Mr. Holland?

Presumably the $135,000 net revenue on the LBN incudes all of the cable, the MTS owned cabled facilities outside of the City of Winnipeg, presumably?

MR. G. HOLLAND: The LBN figure includes all completed installations outside of Winnipeg, yes.

MR. D. ORCHARD: Maybe I'm asking in advance of an answer, but was it possible to break the LBN down to indicate what Valley Cablevision's net contribution to the system was?

MR. G. HOLLAND: Mr. Chairman, we have not been able to collect that data in time for today's meeting, but we are preparing an answer to the request.

HON. A. MACKLING: I think there were questions, Mr. Chairperson, from the president of MTX and I'll call upon him to finish providing those detailed answers.

MR. CHAIRMAN: Mr. Plunkett.

MR. D. PLUNKETT: Mr. Chairman, there were some questions asked the other day which we have some of the answers to.

The first question was: what are the accounts receivable from Saudi Arabia as of March 31, 1986 and the answer is, the Accounts Receivable amount of $9,398,000 in total as of March 31, 1986. This number is subject to audit.

The second question is: why did the MTX gross margins decrease from 9.8 percent in 1983-84 to 1.9 percent in 1984-85? Gross profit levels were decreased for two reasons. During 1983-84, there were several large PBX sales in Saudi Arabia with gross profit margins of approximately 13 to 15 percent. There were no similar sales in 1984-85. The accounting adjustment referred to in the previous meeting is related to some PBX installations.

MR. CHAIRMAN: Order please.

MR. D. ORCHARD: I don't know if anybody else is having trouble hearing with the band, but I wonder if I could get Mr. Plunkett to start out on the gross margin aspect again. I missed bits and pieces of that.

MR. D. PLUNKETT: The question was: why did the MTX gross margins decrease from 9.8 percent in 1983 to 1.9 percent in 1984-85? The gross profit levels were decreased for two reasons. During 1983-84, there were several large PBX sales in Saudi Arabia with gross profit margins of approximately 13 to 15 percent. There were no similar sales in 1984-85.

Secondly, the accounting adjustment referred to in the previous meeting is related to some PBX installations which were carried out in Saudi Arabia. MTX closed out the projects in its books in 1983-84. However, it had not received all of the costs from MTS. MTS was not aware that we had closed out the project and as a consequence approximately $100,000 in billings were recorded in 1985.

The accounting procedures have been tightened up to ensure that all costs have been received from all of our suppliers prior to closing projects out.

MR. D. ORCHARD: I wonder, Mr. Chairman, as some of these answers are provided, if I might pose a couple of questions and maybe save a little time?

If we were to go to the financial report of MTX 1985, where would that $100,000, which apparently appears in 1985 when it should have been in 1984, where does that appear in either the balance sheet or in the Statement of Income and Retained Earnings or the changes in financial position? Where would that appear?

MR. D. PLUNKETT: It does not appear in 1984 at all. It appears in 1985 in the cost of sales.

MR. D. ORCHARD: Okay. Thank you.

MR. D. PLUNKETT: The next question was: what were the components of the additional MTS equity investment of $8.5 million in MTX? The major components related to an additional investment in the Saudi joint venture amounting to $2 million. This money was required to properly capitalize and finance the Saudi joint venture. Our Saudi partner put in an equivalent amount at the same time.

Secondly, there was a purchase of technology from Cesar Industries Limited amounting to $3.57 million; and thirdly, the participation in a consortium of Western Canadian telephone companies for the offshore marketing of Telco products and services. This is principally into China. This investment was estimated to be $450,000 and to date $50,000 has been advanced. The remainder is being held in abeyance pending the requirements for future business opportunities. As of March 31, 1986, MTX has drawn down $6,080,000 of the approved $8.5 million.

There was a related question regarding the approval process for the equity. The MTX equity investment in MTX was approved by the MTX board of directors, the MTS board of commissioners and the government.

There was a last question relating to the description of the investment in Cesar Industries and the anticipated benefits. In the summer of 1985, MTX acquired technology from Cesar Industries for the price of $500,000 U.S. and also purchased 20 percent of subsidiary CIL INET for the price of $2 million U.S. The purchased technology is called teleficient and consists of hardware and software which, when interfaced with the PBX greatly enhances the PBX features and functions.

The main features of the teleficient product include remote call forwarding, programmable from a touch tone telephone. The product also allows the user to make his moves and changes of telephones and people locations in an office much easier than at present. It also provides CLASS service and called detail recording for small PBX's.

There are currently over 100,000 PBX's of the type for which the product was designed installed in North America providing a very large target market for this product. MTX currently has one Canadian distributor who is representing a product in Quebec and Ontario and shipments have commenced.

During the next few months, MTX will be actively marketing to U.S. distributors for the sale of the product. MTX has asked five local manufacturers for quotations of manufacturing the hardware in Manitoba. These negotiations are expected to be concluded by the end of the summer.

The subsidiary CIL INET, the equity investment is in a company which is marketing a technology which is similar to the teleficient product, however, uses a telephone company's centrex facilities to provide services such as call forwarding. It can also greatly reduce the costs of long-distance calling.

The subsidiaries currently negotiating with the Manitoba Telephone System, the Western Canadian telephone companies, Pacific Bell and other U.S. operating telephone companies to integrate technology into their service offerings. The anticipated benefits include a financial return to MTX in the creation of jobs and manufacturing in Manitoba.

Those are the end of the questions.

MR. D. ORCHARD: Mr. Chairman, let's maybe go to the Annual Report of MTX again. Now, one of the first questions I want to ask before we get into the March 1985 report: Accounts receivable in'85 were. for rounded figures, $7.8 million. Now, accounts receivable are $9.4 million as of March 31, 1986, unaudited. First of all, is there an unaudited statement from MTX for fiscal year ending March 31, 1986 that might be available to me to skim through this morning and compare to the financial statement I have for March 31, 1985?

MR. CHAIRMAN: Is it MTX you're asking, or MTS?

MR. D. ORCHARD: X.

MR. D. PLUNKETT: Not at this time.

MR. D. ORCHARD: Mr. Chairman, three-and-a-half months after year end, we don't have an unaudited financial statement available. Now I don't want to get into a harangue with the Minister and the Manitoba Telephone System, but I find that a little unusual given that today we were supposed to be able to discuss in detail the MTX operations. However, I will accept that there are obviously excellent reasons why that isn't here today.

So, could I ask Mr. Plunkett what the sales were for the fiscal year ending March 31, 1986?

MR. D. PLUNKETT: The sales are approximately 8.6 million, Mr. Chairman.

MR. D. ORCHARD: We've got our sales going down. What was the cost of sales and what was the projected gross profit for fiscal year March 31, 1986, for MTX?

MR. D. PLUNKETT: Mr. Chairman, I would be dealing with those numbers off the top of my head - not anymore.

MR. G. FILMON: I wonder, Mr. Chairman, if I could ask a question? Did Mr. Plunkett say that the sales . . .

MR. CHAIRMAN: I think there is a question on the floor which has not been answered yet.

Did the member want to revise that question or does he want to wait for the answer?

MR. D. ORCHARD: Mr. Chairman, as we discussed, and I'm glad the Government House Leader is here - when we agreed to have this hearing today, it was on the basis that we would have reasonably complete information. The question I'd like to pose is: When do you expect to have March 31, 1986 preliminary figures developed so that we could track the financial position of MTX?

HON. A. MACKLING: Mr. Chairperson, I'm given to understand that the president can estimate at this time, but the final reports are not available, are not ready, but he can give the estimated results, because the operations aren't concluded. We're dealing with a foreign partner and I'm sure that complicates closing off final returns and so on. I'm sure Mr. Plunkett can give the estimations at this time and surely that should be helpful.

MR. D. ORCHARD: And the answer to the question as to when the preliminary statement would be ready?

MR. D. PLUNKETT: Mr. Chairman, we don't expect to have the audited statements completed until roughly the end of the summer. The audit is complicated by the fact that the year ends between Saudi and ourselves are different. Their year end is December 31; ours is March.

HON. A. MACKLING: Is the honourable member listening?

MR. D. ORCHARD: I'm absolutely listening, Mr. Chairman. That was one of the questions, as to why you set up year ends with a joint venture that were different.

MR. D. PLUNKETT: We need updated figures from Saudi Arabia and the auditors have to do their review over there.

On the question of sales and cost of sales, the sales are estimated to be 8.3 million; cost of sales 7.5; and the margin is roughly 9.8 percent.

MR. D. ORCHARD: Did Mr. Plunkett say the sales were 8.3 million?

MR. D. PLUNKETT: Mr. Chairman, they are approximately 8.3 million.

MR. D. ORCHARD: Maybe I didn't hear you correctly a few minutes ago, but I have a figure written down that sales were 8.6 million.

MR. D. PLUNKETT: I'm correcting myself, Mr. Chairman.

MR. D. ORCHARD: So then we've got sales of 8.3 million and cost of sales of what figure again, please?

MR. D. PLUNKETT: 7.5 million.

MR. D. ORCHARD: Mr. Chairman, you are projecting, according to previous statements, a $90,000 loss. How accurate would you guess that projection would be at this date?

MR. D. PLUNKETT: Mr. Chairman, I still believe that's in the ballpark. I do not expect at this time for it to be any more.

MR. D. ORCHARD: Mr. Chairman, I have received an answer, and I don't know where I wrote it - here we are - that two things have happened apparently. First of all, the value of sales has dropped by $0.5 million, from 8.8 to 8.3 million. At the same time, accounts receivable have climbed from 7.8 million to 9.4 million. That's a $1.6 million increase in accounts receivable based on a $0.5 million reduction in sales.

Can Mr. Plunkett indicate to us whether we will be once again seeing an Auditor's note to the effect that the recoverability of the investments in SADL and their related trade receivables is uncertain at this time, when we get the March 31, 1986 financial report?

MR. D. PLUNKETT: Mr. Chairman, yes, that note will be there again this year. I think as the committee is well aware, the Saudi economy has taken a down turn due to the oil price problem. As a result, our business is not expected to grow as fast as it was and we are in a retrenching mode in Saudi Arabia wherein we are cutting costs and cutting staff to ensure that at a minimum we break even during 1987.

MR. D. ORCHARD: With accounts receivable of $9.4 million, to whom are those accounts receivable, who are the accounts with, and what is the aging schedule on those accounts receivable and are any of those accounts overdue?

MR. D. PLUNKETT: Mr. Chairman, the accounts receivable number that I gave was for the Saudi companies. The total accounts receivable are 10.9 million. It is not our practice to give out who owes us money or client lists because that is confidential information to the client. We do not have an aged arrears listing with us. It can be provided at a later date if it's required. Yes, some of the accounts would be overdue. Our invoices are usually issued net 30 days.

MR. D. ORCHARD: Mr. Chairman, this comment will be directed at the Government House Leader.

One of the questions, and the Minister is well aware of this, that I asked specifically, when we appear next an aging schedule be available on the accounts receivable. That aging schedule is not available. Now, Mr. Chairman, how are we to complete an analysis of the financial security of MTX when those requested pieces of information are not before the committee? I presume that, because an aging schedule isn't available, we won't know what dollar volume of those accounts receivable are now overdue, or will be.

MR. CHAIRMAN: The Leader of the Opposition.

MR. G. FILMON: Maybe I could just listen to the answer on that, and then I have a further question.

MR. CHAIRMAN: Mr. Plunkett.

MR. D. PLUNKETT: Mr. Chairman, we are currently working on the year-end position which includes our accounts receivable. Those numbers are, as I suggested, subject to audit and they're not finalized. The aged arrears listing would not be ready for some time yet.

MR. D. ORCHARD: How in the world can that be?

MR. CHAIRMAN: The Leader of the Opposition.

MR. G. FILMON: Mr. Chairman, has the corporation had any discussions with its auditors with respect to the fact that its accounts receivable exceed its annual sales? I believe it was said that annual sales are 8.3 million, but accounts receivable are 10.9 million. It would seem therefore pretty obvious that those accounts receivable, many of them, are very lengthy, and does the corporation have an allowance for doubtful accounts set up and what is the figure that they put into their statement for that?

MR. D. PLUNKETT: Mr. Chairman, we do not have an allowance for doubtful accounts. We consider all of the receivables to be collectible. The majority of the receivables, as I mentioned earlier, are from Saudi Arabia and will be collected through the draft process in the normal course of events.

MR. G. FILMON: I wonder if the MTX could give us the figure for accounts receivable that are in excess of 180 days.

MR. D. PLUNKETT: Mr. Chairman, we can undertake to do that.

MR. G. FILMON: By what time, Mr. Chairman?

MR. D. PLUNKETT: One week to 10 days, Mr. Chairman.

MR. D. ORCHARD: That is a substantially shorter period of time than you mentioned just a few minutes ago where it would take several months, but we're pleased to be able to do that.

Well, the aging schedule is basically whether your accounts are over 180 days. In my terminology, an aging schedule and accounts over 180 days are one and the same thing, Mr. Chairman, but I'm pleased that we're going to get that information in seven to 10 days.

To expedite that next meeting where we're going to discuss those kinds of accounts receivables and their aging schedule, can the senior officials at MTX and MTS provide several additional pieces of information on the accounts receivable? No. 1: can they indicate what the interest rate that we are charging on our accounts receivable is, and No. 2, if that varies, I'd like to have, if one customer is being charged 1 percentage of interest rate and another, another, I'd like to have that in detail.

Secondly - well, okay, I'll find out if that's available. — (Interjection) — Well, is it available, Mr. Chairman?

MR. D. PLUNKETT: Yes, it is, Mr. Chairman. The interest rate that we charge on our outstanding accounts receivable is 1 percent per month.

MR. D. ORCHARD: What interest rate does MTS charge MTX for loans and advances?

MR. D. PLUNKETT: I believe it's prime plus one-half of one percent, Mr. Chairman.

MR. D. ORCHARD: Which would be 10.5 percent?

MR. D. PLUNKETT: Mr. Chairman, it varies during the year, but as I recall, it has never been higher than about 11.25 percent.

MR. D. ORCHARD: Mr. Chairman, Mr. Plunkett indicated that 9.4 million of receivables are from the 100 percent owned companies of Sheik Abdullah Al Bassan. If I'm wrong in that assumption, he can correct me. In addition to that, there is approximately $1.5 million of receivables in addition to those owed by the 100 percent companies of Sheik Abdullah Al Bassan.

Can Mr. Plunkett indicate first: what is the security for the additional 1.5 million in accounts receivable and from whom are those accounts receivable collectable?

MR. D. PLUNKETT: Mr. Chairman, the additional accounts receivable above and beyond what's owed to us from Saudi are from our other clients that we do work for throughout North America and other parts of the world. We do not normally publish our customer's names, nor their accounts.

MR. D. ORCHARD: What is the security on that $1.5 million worth of accounts?

MR. D. PLUNKETT: There is no security, Mr. Chairman.

MR. D. ORCHARD: Without security, what is your assurance of collection?

MR. D. PLUNKETT: Mr. Chairman, most of the companies that we deal with have an excellent track record and are substantial corporations. We do not anticipate any problem in collecting these accounts.

MR. D. ORCHARD: With the $9.4 million owed in accounts receivable by the Saudi-related companies, can I - I'll dig up my notes. Are those accounts receivable owed by Al Bassan International Telecom and Al Bassan International Datacom?

MR. D. PLUNKETT: Mr. Chairman, perhaps with just a little bit of background, we ship our goods and services to Saudi by way of purchase order. Then we subsequently bill the Saudi operations for those goods. Our accounts receivable are then normally taken to the bank; the bank issues a draft, pays us our money at face value, and sends the drafts to Saudi Arabia for acceptance by our Saudi partner. Our Saudi partner, when he receives those from his bank, signs off as guaranteeing those payments.

Additionally, only a wholly-owned Saudi company can import or sell at a retail level in Saudi Arabia. On that basis, the only company then that can have notes with us, or accounts receivable with us, is the wholly-owned Saudi company, whose name is Al Bassan International, and the two divisions are Telecom and Datacom. All of the monies that are owed from Saudi are from this Al Bassan International Company.

MR. D. ORCHARD: Mr. Plunkett indicated that the invoices, when they're not paid, are covered by bank drafts. What are the value of bank drafts currently, as of March 31, 1986, signed by Al Bassan International, theoretically to secure that $9.4 million in accounts receivable?

MR. D. PLUNKETT: Mr. Chairman, the bank drafts are not at all related to the accounts receivable. The accounts receivable are reduced by going through the bank draft process. In other words, if we were to draw down $1 million from the $9.4 million, the bank draft amount would go up by that $1 million.

At March 31, the amounts of drafts outstanding were $4.179 million. I believe they are now down to $3 million.

MR. D. ORCHARD: That begs the question, since we're dealing with March 31, 1986 figures, you have indicated that there is $10.9 million of accounts receivable; $9.4 million of those are to the 100 percent-owned Saudi companies, whether it be Al Bassan International or the divisions of Telecom and Datacom.

Are you saying, Mr. Plunkett that, as of March 31, 1986, those accounts receivable were $9.4 million and, in addition to that, there were bank drafts which had paid down previous accounts receivable to the value of $4.179 million?

MR. D. PLUNKETT: That's correct, Mr. Chairman.

MR. D. ORCHARD: Then, as of March 31, 1986, we had accounts receivable of $9.4 million to the Saudi companies. As well, we had bank drafts which, in previous questioning, if the Saudi customer does not honour those bank drafts, that MTX has a $3 million guarantee and the Province of Manitoba has a $4 million guarantee, which would pay that $4.179 million.

So what I'm getting at, Mr. Chairman, is the total exposure on accounts receivable and contingent liabilities through guarantee of bank drafts is, in fact, with the Saudi companies in the neighbourhood of $13.5 million. Is that a correct assumption?

MR. D. PLUNKETT: Mr. Chairman, the arithmetic holds together. However, that in fact didn't happen. The notes have been paid, and the note process is down $3 million. Additionally, in the normal course of business, we expect to collect those accounts receivable and have those notes paid off.

MR. D. ORCHARD: Mr. Chairman, that would be clearly evident if we had an aging account of those accounts of $9.4 million. Since we don't have that and, given the relationship that my Leader laid out and and that I've laid out this morning where sales are down and accounts receivable are up, that is exactly why we're here trying to determine the financial viability of this operation and what the exposure is to MTX.

Now as of March 31, 1986, the numbers were the $13.5 million. It's been dropped by $1.2 million. Would it be fair to say today that the liability is now $12.4 million or $12.3 million between bank drafts which are guaranteed under contingent liabilities and accounts receivable?

MR. D. PLUNKETT: Mr. Chairman, we do not have the information on what our current receivables are, so I can't answer that question.

HON. A. MACKLING: Mr. Chairperson, I would like Mr. Plunkett to assist the committee because I think, as a result of the Honourable Member for Pembina's questions, it can become kind of confusing. He is asking you about monies at risk, and accounts receivable as monies at risk, and what our exposure is - he didn't use the word "exposure," but what is that risk for MTX. He has added accounts receivable and notes and come to a figure that is at risk for us.

I would like you to explain to the committee what is our investment and what is our guarantee. What if everything were to collapse tomorrow and we were not to recover a single penny on accounts receivable, or realize anything from inventory, what would the risk be to the shareholders, the taxpayers of Manitoba? Then give us an approximation - and you don't have the exact figures here - of what the inventory, plus accounts receivable, are - we know the accounts receivable are $10.9 million - if we were only to receive 50 percent of our accounts receivable, which is maybe not the best case scenario, maybe not the worst case scenario. What is the value of the inventory added to that which would offset what we have in equity and in guarantee? Could you put those kinds of numbers before the committee?

MR. D. PLUNKETT: Mr. Chairman, if I understood the request, if we were to walk away from Saudi Arabia right today, or as of March 31st - I don't have the exact numbers today - what would our total exposure be? The answer to that is $16,371,000, made up of the accounts receivable, our equity in advances of 2.794 million and the 4.179 million in notes. From that, then, based on the other assumptions, if we were to collect half of the receivables and take inventory back which we can use in Canada — (Interjection) —

A MEMBER: How much is the inventory?

MR. D. PLUNKETT: The inventory is approximately $6 million between both companies. We would then have, before the inventory, an exposure of 11.6 million, and then after the inventory, 5.673 million.

Even, Mr. Chairman, if we were to walk away, we still have recourse on the notes because those notes have been guaranteed by the Saudi partner and under Saudi law, he would have to make good on those if we were leaving for reasons of his failure to do business.

MR. D. ORCHARD: That broaches an interesting question. By Saudi law, your customer in Saudi Arabia would have to pay those notes. I believe I posed the question last year as to whether the principal owner, Sheik Abdullah Al Bassan, had offered a personal guarantee to MTX to secure the accounts receivable, and last year the answer was no, that we were depending on, and I'll paraphrase, the business integrity of the individual.

Mr. Plunkett, you are saying today that Saudi law would compel him to pay that. Now, we don't know what the asset value of Al Bassan International is, nor do we know what the asset value of the two subsidiaries, Al Bassan International Telecom; and Al Bassan International Datacom are. They could be $1 shareholder companies presumably. The accounts receivable are with them. If there were no assets in those companies, the worst case scenario, how are you saying, then, that Saudi law would compel and require the principal owner, Sheik Abdullah Al Bassan, to come good on those accounts receivable drawn on account of his three business ventures? What Saudi law compels him to pay that?

MR. D. PLUNKETT: Mr. Chairman, the signature that accepts and guarantees those notes is that of a Saudi and under Saudi law, they have to pay up their debts. It's a personal debt; it is not necessarily just a corporate debt.

I would like to correct one misunderstanding. Al Bassan International Company is a datacom and telecom division - I'm sorry, I think I confused you more. Datacom and Telecom are just divisions of Al Bassan International Company and they are the only two operating divisions.

MR. D. ORCHARD: So, then, what you're telling us this year is that the accounts receivable and the note signed have all been signed personally by Sheik Abdullah Al Bassan and are not accounts receivable with his major company or either of its divisions, but rather are with him personally?

MR. D. PLUNKETT: I think I confused things. The notes have been signed by the appropriate Saudi personnel and are therefore guaranteed by Sheik Bassan. The accounts receivable are not guaranteed and in the normal business, the accounts receivables get drawn down by the issuing of drafts. There is only one company in Saudi Arabia that is a wholly-owned company that we're dealing with; the company name is Al Bassan International. It happens to have two divisions by the names of Datacom and Telecom, but corporately, it is one company, Al Bassan International.

MR. D. ORCHARD: Now, Mr. Plunkett, you just indicated that presumably the $9.4 million in accounts receivable are not secured by signature of the Sheik? Did I understand you correctly there?

MR. D. PLUNKETT: That is correct, Mr. Chairman.

MR. D. ORCHARD: In fact, they are signed by officers presumably of Al Bassan International, for which the only security of recovery would be the asset value of that company, which we don't know. Is that correct?

MR. D. PLUNKETT: Mr. Chairman, we do know what the asset values of Al Bassan International Company are; however, it is a Saudi company. It's owned by a Saudi national, and we are not at liberty to disclose that information. I don't believe it's been disclosed in the past.

The accounts receivable are secured by inventory and the MTX accounts receivable are secured by the Al Bassan International inventory and accounts receivable. That is the only security that we have until such time as the MTX accounts receivable are converted into bank drafts.

MR. D. ORCHARD: Mr. Chairman, just as a note, when we're talking about security, I refer you to Page 4, Note

6(c), where there was a disposal of inventory at a loss of in excess of $314,000.00. That's the only recovery of security through inventory that we have to make reference on and, in that one, there was a loss.

So the position put forward by Mr. Plunkett may be very, very good in that we can recover 100 percent of our accounts receivable through sale of inventory, but the only instance that we know of that's reported in the financial sheets, that disposal led to a loss. We don't know on that disposal what the original cost was of those computers, those four IBM Series One computers. We don't know whether they were $1 million, half-a-million, but we do know that there was a loss of $157,475 to MTX and a similar loss to the 50 percent Saudi Arabian owner of SADL, so the loss was in the neighbourhood of $314,000.00.

So I simply want to ask Mr. Plunkett, would sale of the assets result in a full recovery of accounts receivable? By assets, I mean the inventory which is presumably what is the security right now.

MR. D. PLUNKETT: No, Mr. Chairman, and I don't think I was suggesting that. If you sell inventory on a fire sale basis, you're always going to lose money. But part of the money would be recovered through the sale of inventory in Saudi Arabia. The inventory that was usable back in Manitoba would be brought home and repatriated into the MTS requirements.

With regard to the Series One computers, they were brought over to Saudi four years ago, and we found that marketplace did not use those particular computers. They were brought back to Canada and sold over here, because they were sitting in our inventory and we felt we should be moving them.

MR. D. ORCHARD: I mean, that could beg all kinds of comments as to why you sent computers over there that weren't sellable, but I'm not going to question the business practices of MTX. But it does appear a little strange that you would take computers over there that weren't sellable.

However, let us try to get a little more information for our next meeting. I'm not certain that we're going to end up with a greater understanding of what the exposure is until we see an accounts receivable aging schedule. Now the one question that does automatically come to mind is that, as of March 31, 1986, there was $9.4 million in accounts receivable to the Saudi company. Why hasn't a substantial portion of that been secured by bank drafts or paid off to MTX by bank drafts? Why is it sitting there as accounts receivable, which have a much less degree of security than bank drafts theoretically?

MR. D. PLUNKETT: Mr. Chairman, as I indicated earlier, there has been a significant slowdown in the Saudi economy, resulting in slower payments and collections by our company over there. In order to assist them in their cash flow planning, we have delayed issuing bank drafts so that we can time the due dates of those bank drafts to the collection of their cash in Saudi Arabia. There have been draw-downs since March, and it is an ongoing process.

MR. D. ORCHARD: Then for clarification again, the interest rate that you're charging on the accounts receivable is 1 percent per month?

MR. D. PLUNKETT: That's correct, Mr. Chairman.

MR. D. ORCHARD: Now, Mr. Chairman, I want to attempt to go through - and this is going back to the fiscal year ending March 31, 1985, because I want to have an understanding of what happened under contingencies, because it may explain information that you're going to provide to us at the next meeting in terms of the accounts receivable, etc., for March 31, 1986.

We start out after the notes of guarantee by MTX up to $3 million. The company has bank drafts outstanding, including interest, of $5,213,948 as of March 31, 1985 that have been accepted by these customers. Now it says: "Subsequent to March 31, 1985, MTX has drawn down an additional $4.3 million of bank drafts against its Saudi Arabian major customers." Okay? Now does that mean that the bank drafts, to total them, you would have to add the 5.2 million and the 4.3 million together?

MR. D. PLUNKETT: Mr. Chairman, net of notes that have come due and been paid, yes.

MR. D. ORCHARD: Now the last paragraph indicates: "Of the total amounts drawn down, $2.7 million was subsequently paid by MTX's major Saudi customer." So presumably, that's what Mr. Plunkett was referring to. Instead of a $9.5 million bank draft, we would have in the neighbourhood of, say, 6.8 million if my numbers are correct, if my arithmetic in my head is correct.

Now "an additional 2.2 million was repaid by MTX." Does this mean that MTX who, if I follow the course correctly - they had an accounts receivable. That accounts receivable was paid through a bank draft by the Saudi customer. MTX received the money. Because the bank draft is now owed by the Saudi company, MTX has received the cash.

Then MTX turned around and, of the money they received from the bank draft, they put $2.2 million back in to retire the bank draft on behalf of the Saudi customer. Is that what I assume happened in the statement, an additional 2.2 million was repaid by MTX?

MR. D. PLUNKETT: Yes, Mr. Chairman, both partners agreed that the company was under-capitalized, and it required more cash to finance its inventory, to finance its accounts receivable and to finance those fixed assets which it had purchased.

At that time, at the end of March, $1.449 million had been advanced by each partner towards this increase in investment. The difference was estimated to be the inventory that was being brought back from Saudi Arabia for use in the Manitoba Telephone System.

MR. D. ORCHARD: Now is that difference which was inventory brought back for use in the Manitoba Telephone System the same inventory that is referred to in subsequent events, Note 6(c), the IBM Series One computers?

MR. D. PLUNKETT: Mr. Chairman, they are totally unrelated.

MR. D. ORCHARD: Now then the $750,000 which was difference, if I understand correctly, was inventory of electronic equipment, whatever it may be that, first of all, MTX sold to SADL, established an accounts receivable. The accounts receivable was paid by a bank draft. The money went to MTX. MTX put the money back in, and took the inventory back for $750,000 of book value. Is that correct?

MR. D. PLUNKETT: Over a period of time, that is correct, Mr. Chairman.

MR. D. ORCHARD: How did you establish the $750,000 value? Was that the original invoice price of that inventory by MTX to SADL? Was it . . . ?

MR. D. PLUNKETT: That is correct, Mr. Chairman.

MR. D. ORCHARD: Now, at what value, how did you establish the $750,000 value? Was that the original invoice price of that inventory by MTX to SADL? Was it a fire sale price so that the Saudi Arabian partner bore 50 percent of the loss? Or did MTS simply take back that inventory at the original cost and endure 100 percent of the potential loss from bringing that equipment back to Manitoba?

MR. D. PLUNKETT: Mr. Chairman, the principle for transferring inventory back to the Manitoba Telephone System is that they will pay Datacom no more than they would pay any other supplier for that equipment. So the landed cost in Winnipeg has to match what they would otherwise be able to acquire it for. In the case of this inventory, it was related to datacommunications equipment and Datacom would have to, if there is an adjustment to be made in the value of the inventory, absorb that on their books and the Saudi partner would share in that.

MR. D. ORCHARD: And did that happen? Was there a loss on that inventory transfer back to Winnipeg?

MR. D. PLUNKETT: Mr. Chairman, I'm advised that there was not a loss.

MR. D. ORCHARD: This would be a question to Mr. Holland. Was that equipment needed by the Manitoba Telephone System and was it subsequently put into use within the system?

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, I'm only familiar with the ground rules and that is that it must be valued at no more than all alternative sources of supply. I would have to get information on this particular equipment, but that is the overall policy that prevails.

MR. D. ORCHARD: Well then, when Mr. Holland is getting that information, could he indicate whether the particular equipment that was theoretically valued at $750,000, if that was needed by the system and was put into use? What I'm getting to, and I think Mr. Holland understands what I'm trying to establish, is whether MTS bailed out MTX and their 50 percent share in SADL by bringing back equipment they didn't need? That's what I'm trying to establish.

MR. G. HOLLAND: Mr. Chairman, I'll check that and report back to Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, the accounts receivable in Saudi Arabia are charged at the rate of 1 percent per month. Can Mr. Holland indicate to us what the current charge on overdue accounts in the Manitoba Telephone System are to Manitoba Telephone customers?

MR. G. HOLLAND: Mr. Chairman, it's 1.5 percent per month and I'll have to get the date on which that commenced. It only applies to accounts over $20.00.

MR. D. ORCHARD: So then I think it's a fair question to pose: why are Manitoba customers being charged at 1.5 percent per month when we own the telephone company and Saudi Arabian arm's length customers, theoretically, are only charged 1 percent per month? Why would we not charge them at least what we charge Manitobans who own the company?

MR. CHAIRMAN: Mr. Plunkett.

MR. D. PLUNKETT: Mr. Chairman, there is an inter-company agreement which basically provides for services at cost between the two companies. We would actually in effect be charging ourselves if we were to charge them any higher interest rates. We're basically looking to cover our costs.

MR. D. ORCHARD: That's a very interesting agreement. I wonder, Mr. Holland, if you could make that agreement with Manitobans who are customers and enter into agreements with you and you'd only charge them your cost of interest instead of 1.5 percent - a very interesting proposal. Help Manitobans immensely. Help those disadvantaged Manitobans that we all care about who can't afford to pay telephone bills. That's a great agreement - if it was in Manitoba.

MR. D. PLUNKETT: I would like to clarify that a little bit. The interest rate is charged to our joint venture, so if we were charging the joint venture any more, we would just be charging ourselves and it almost becomes funny money.

MR. D. ORCHARD: Mr. Chairman, it would be 50 percent funny money, because at least you'd get one-quarter of a percent out of the Saudi Arabian partner.

Mr. Chairman, I'd like to pursue one other area on MTX before we close the matter on MTX.

Mr. Holland, you indicated that there are 40 staff currently deployed to MTX operations. How many of those 40 staff are deployed to MTX operations in Saudi Arabia?

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, there are 22 employees in Saudi Arabia, 13 with Datacom and 9 with the Bell project; 4 in New Zealand and 14 in Manitoba.

MR. D. ORCHARD: The number that are with Bell, are those related to any activities of MTX in Saudi Arabia or is that Bell Canada's involvement?

MR. G. HOLLAND: Mr. Chairman, those are MTS employees under contract to Bell.

MR. D. ORCHARD: So they have nothing to do with MTX operations, is that correct?

MR. G. HOLLAND: They are MTS employees, as are all MTX people. But these are MTS employees under contract with Bell in Saudi Arabia.

MR. D. ORCHARD: Mr. Chairman, last year, if Mr. Holland would recall, he expressed some concern that we wouldn't be mixing employee deployment with Bell Canada with MTX operations. He just wouldn't have wanted that to happen last year. It appears as if we are close to having it happen this year. The Bell Canada employees who are MTS employees on contract with Bell Canada, do they have anything to do with MTX operations in Saudi Arabia or are they working for contracts arranged by Bell Canada in Saudi Arabia solely?

MR. G. HOLLAND: Mr. Chairman, they are working on contracts arranged by Bell Canada solely in Saudi and they are MTS employees who, in turn, are under contract to Bell and the revenues from which contracts flow to MTS directly.

MR. D. ORCHARD: Can I make the statement complete: And have nothing to do with MTX operations in Saudi Arabia? Would that be a fair assessment?

MR. G. HOLLAND: Mr. Chairman, that would be true.

MR. D. ORCHARD: Now, can we then get the number of employees in Manitoba, who are resident in Manitoba, and deployed to MTX, as well as MTS employees who are in Saudi Arabia solely employed by MTX or on management contracts that MTX has with the subsidiary companies? I just want employees in Manitoba who are dealing solely with MTX operations for which their salaries, benefits, etc., would be charged to the MTX balance sheet?

MR. G. HOLLAND: Mr. Chairman, I think I should undertake to compile that. There are 14 MTX employees, Manitoban-based; 13 in Saudi Arabia with Datacom; 4 in New Zealand. There may be others who are charged to the projects in cost of sales. I would have to check to see whether there are any such. They are assigned for differing periods of time and are included in cost of sales rather than in the staff roster.

MR. D. ORCHARD: When we get these for sure 27 employees in Manitoba and in Saudi Arabia with Datacom, where in the financial statements do we find the tabulation of their salaries as an expense item of MTX?

MR. D. PLUNKETT: Mr. Chairman, the salaries will be split up between two areas on the income statement. One will be in cost of sales for those people assigned to projects; the other will be to the administration salaries, and I guess the balance are in cost of sales and the administrative fee. I should correct myself, there is nothing in the administrative fee.

MR. D. ORCHARD: None in the administrative fee, okay.

So we've got basically two areas. We've got these 27 employees in cost of sales and administrative salaries. For the next meeting, can you provide a breakout for the 1985 statement of what portion of the $8,636,615 cost of sales would represent employee costs assigned to that line in the income and expense statement?

MR. D. PLUNKETT: Yes, Mr. Chairman, we'll get that information.

MR. D. ORCHARD: Mr. Holland, can I ask the question as to whether, within a corporation the size of MTS, where you have identified some 27 employees who are providing services directly to MTX, theoretically they are seconded, not available to MTS. In addition, it's my understanding, if I followed your answer correctly, there may be other MTS employees who from time to time might put in a month's work, or two month's work, but are still paid by MTS. How are those costs assigned to MTX operations and, indeed, are they assigned to MTX operations so that the MTX balance sheet truly reflects the total staff complement and the costs of that staff complement needed to undertake the range of MTX operations?

MR. G. HOLLAND: I believe Mr. Provencher can answer that.

MR. CHAIRMAN: Mr. Provencher.

MR. M. PROVENCHER: MTS bills, MTX Telecom Service are all project costs associated with any staff that is allocated to MTX for project work. It includes salary plus all employee overheads, plus employee benefits. For the year ending 1984-85, MTX billed MTX Telecom Services 574,000 for such project support. That amount in 1985-86 increased to 1,092,000.00.

MR. D. ORCHARD: Mr. Chairman, if I followed the answer, the salaries are paid, the benefits are paid, so that the entire wage cost is recouped by MTS from MTX, is that correct?

MR. M. PROVENCHER: That is correct.

MR. D. ORCHARD: Mr. Chairman, this morning we had some rather interesting figures given to us by Mr. Mackling and Mr. Holland, in which they showed over a period of two, four, six, eight years a profit of 1,858,000 from assignment of MTS employees to Bell Canada. In other words, and the Minister made this very clear, the Minister said that those figures that he gave me this morning represented the entire cost of the salaries and all the benefit and related costs of the employees of MTS, plus a profit. Now he's changing his mind, Mr. Chairman?

HON. A. MACKLING: I'd like the honourable member to think of his words. He said, "represented the entire cost of the salaries, plus a profit." I made it clear that the numbers I gave were the net profit after payment of the salaries.

MR. D. ORCHARD: That's exactly what I'm saying, Mr. Chairman . . .

HON. A. MACKLING: No. Reflect on your words.

MR. D. ORCHARD: . . . if the thick-headed Minister could understand. The figure he gave me of 1.86 million represented the net profit after all salary benefits were paid and that's exactly what I mentioned a minute ago before he interjected.

HON. A. MACKLING: No, I'm sorry, you didn't. You read Hansard and you'll see that you were wrong.

MR. D. ORCHARD: Mr. Chairman, that begs the question of the company, of the corporation, of MTS and of the Minister. Why would you assign staff from MTS to MTX at only your cost, no profit, with Bell Canada who are over in Saudi Arabia, presumably, in the Minister's words, making a profit, are willing to pay us for staff secondment, the entire package of benefits, of cost of salary, of benefits, of everything, plus a profit, and yet we're providing them at cost only. Why don't we provide them at cost plus the same kind of profit that we have here in secondment of Bell Canada?

HON. A. MACKLING: Why would a partner in a venture want to charge itself and its partner more than the cost of the service?

MR. D. ORCHARD: Mr. Chairman, let me explain some basic arithmetic to this man. Your costs, theoretically, are figured in the cost of sales to Saudi Arabian companies. The only area in which you would not recover from the Saudi Arabian customers, the profit from staff secondment, MTS to MTX, is in the case of where that staff is provided to SADL, which is the 50-50 company and there you would recover 50 percent of the profit from your customer. All other cases, in terms of management provision, cost of sales to those companies, you would recover 100 percent from the end customer and it would represent a total profit to MTS. The Minister's argument shows his ignorance of pure business practices. What he said was not correct.

What it demonstrates is that we have forgone, once again, an opportunity for profit. Why? - I don't know. Why you wouldn't charge MTX a profit on staff seconded by MTS when you do it to Bell and they go over to Saudi Arabia and make a profit, paying us the profit on our staff, but yet here we are stuck with a $314,000 loss and, over the period of time, I don't know how many millions of dollars we've got in terms of staffing costs, but if we added the same kind of profit of $1.9 million, even in the worst case scenario where all of the costs were paid by the 50-50 joint-owned company, we would still net revenue $900,000 out of the Saudi customer which would be triple our loss. But yet they don't do that. It boggles my mind as to how this Minister could justify that.

HON. A. MACKLING: Of course, the honourable member refuses to distinguish between the two sets of circumstances in respect to Bell. Bell has the contract. It hires people. We don't know the profits. We don't know the range of the profits that Bell is making. That is not open to us. Presumably, it's making a profit.

In the case of our partnership with the Saudi companies, that is a joint venture. We contribute equally by way of equity participation and we charge each other the cost of services. We don't inflate those services. We don't put a margin on them. Otherwise, they would put a margin on what they put in and what they share. They would expect, perhaps, that products sold to their related companies would be sold at a discount. You know, you could get involved in a never ending game, playing the kind of thinking the honourable member has.

There is a distinct difference between a joint venture and selling services to a private company.

MR. D. ORCHARD: Mr. Chairman, to help the Minister understand the point I'm trying to make.

HON. A. MACKLING: I understand.

MR. D. ORCHARD: I wonder if Mr. Plunkett could indicate in 1985, when he had cost of sales of $8,636,000, what percentage of that total value of 8.6 million was sold directly to 100 percent Saudi companies and not SADL.

MR. D. PLUNKETT: Mr. Chairman, I don't have the figure right now, but it would be a substantial portion of that. However, these sales to the Saudi company are not for the Saudi company's consumption. The people are there to market the goods and services of the Saudi joint venture and the other Saudi companies to customers in Saudi Arabia. As a consequence, if we were to sell the products that we buy for DataCom at a profit, it would make those products uncompetitive in Saudi Arabia.

MR. D. ORCHARD: Mr. Chairman, that's an interesting analogy. For instance, we do have a figure of $7,360,000 in investments - Note 2 - which are theoretically trade receivables from sales to the divisions of the Saudi shareholder. So it is a substantial portion of the 8.6 million. The point being, who are you competing with in Saudi Arabia? If you're competing with Bell Canada, Bell Canada is passing those costs on to the end customer in Manitoba for which this Minister has glowingly talked about enormous profits to MTS. You're saying that you can't do it in MTX because you'd be uncompetitive. It doesn't make a great deal of sense to me.

HON. A. MACKLING: Not much of what you've said makes a lot of sense.

MR. D. ORCHARD: You'd better start listening, Mr. Mackling, or you'll find out that you're in bigger trouble than you would like to admit.

You might understand, Jay.

MR. CHAIRMAN: The House Leader.

HON. J. COWAN: Mr. Chairperson, the Member for Pembina knows very well that it is not appropriate in committee or in the House or in any other forum where discussions of this sort take place to utter a threat against another member. I suggest that while he has intended to do so by his remarks, we should not allow those remarks to stand without some clarification from the member that he was indeed not uttering a threat, but only, in his opinion, offering a comment.

MR. CHAIRMAN: Is the Member for Pembina offering a threat or not?

MR. D. ORCHARD: Mr. Chairman, the Government House Leader has become the biggest tattletale in school. When I point out to the Minister responsible for the MTS system that he is in bigger trouble than he would like to admit, it stems from the lack of answers in MTX and the financial difficulty that that company appears to be in which we are trying to substantiate this morning. I can understand a Minister and this government trying to make sure that everything appears rosy. I suggest it's not; there is bigger trouble for this Minister than what he is willing to admit and, if there's trouble for this Minister, there is trouble for the taxpayers of Manitoba and to the telephone customers of Manitoba. That is the problem.

HON. J. COWAN: Without accepting the premise, we certainly accept the apology and the clarification.

MR. D. ORCHARD: Mr. Chairman, to the Government House Leader, best tattletale in school, there was no apology.

HON. J. COWAN: Well, we certainly accept the clarification and the fact that the member did not intend to utter a threat as certainly was suggested by his earlier comments, and thank him for being cooperative in that way.

MR. D. ORCHARD: Mr. Chairman, does the Government House Leader want to play Mickey-Mouse games and waste more time this morning? There was no personal threat. He knows it from Day One. It's his method of trying to divert the issue away from the serious problems that MTS and his government have.

MR. CHAIRMAN: Is that an accusation?
The Honourable House Leader.

HON. J. COWAN: Certainly we, on this side, would not want to contribute any more to the suggestion that Mickey-Mouse games have been played in this committee. If, in fact, they have been, I think the Member for Pembina should not have to look too far to understand very clearly who has been playing games in this committee and who is not.

MR. D. ORCHARD: That's right. I'm looking at the person who is playing the games right now and that happens to be the Government House Leader.

HON. J. COWAN: I think perhaps in trying to get this back on track to a rational review of the operations and proceedings of MTS and MTX, one should ignore the comments of the Member for Pembina, but the Member for Pembina makes those comments on such numerous occasions, that it is in fact difficult to ignore. But given . . .

MR. D. ORCHARD: On a point or order, Mr. Chairman.

MR. CHAIRMAN: There is no point of order here.

MR. D. ORCHARD: Mr. Chairman, there is a point of order now.

MR. CHAIRMAN: Let the Minister finish.
What is the point of order?

MR. D. ORCHARD: The Government House Leader has just made an accusation which is not true about numerous occasions of repeating such and such. Mr. Chairman, those kinds of accusations don't get us anywhere in this committee, and I would ask the Government House Leader to withdraw them. They are not substantiated in any form that I'm aware of and I would ask him to withdraw them. If he would cool his tongue, we would certainly get on with the discussion of MTX.

HON. J. COWAN: Anyone who is listening to the comments from the Member for Pembina in this forum or in the House know very well that he is prone to making comments from his seat, making comments from his feet . . .

MR. D. ORCHARD: Mr. Chairman, what has this got to do with comments that are substantiated?

HON. J. COWAN: . . . that detract from the business of the House and the business of the committee.

Certainly it is our intention on this side to make these committee hearings function as expeditiously and efficiently as possible and we will do everything in our power to do so. But one cannot let certain comments, whether they are made from their feet, or made from their seat go unanswered; and that is what we have intended to do and attempted to do in this particular case.

MR. CHAIRMAN: If the honourable members will focus on the arguments on the facts, rather than at whom it attacks, then the proceedings of this committee will be in much better order.

A MEMBER: Sounds like a good idea.

MR. D. ORCHARD: It sounds like an excellent idea and maybe the Minister for tattletales could calm himself for a little while.

Mr. Chairman, could we get into a few questions because we're going to get answers for the MTX questions that I posed this morning. I would like to pose a few questions on Cesar Industries Limited.

Can the Minister or Mr. Holland indicate who the principals are of Cesar Industries?

MR. CHAIRMAN: Mr. Plunkett.

MR. D. PLUNKETT: Mr. Chairman, Cesar Industries is a public company which has shares on the stock exchange. The senior officers in the company right now are Robert Cesar, who is also the principal shareholder and chairman of the board; the chief executive officer is David Brandon. Both of these people are from the San Francisco area.

MR. D. ORCHARD: How long has Cesar Industries been established?

MR. D. PLUNKETT: Cesar Industries, to my knowledge, has been around for five or six years, but has had different names through those years.

MR. D. ORCHARD: Mr. Chairman, that is a confusing answer. If Cesar Industries was around for five or six years, but had different names, how could it have been around? Like, how long has Cesar Industries been around? I'm not interested in what Cesar Industries was a year ago, or three years ago, or five years ago because, you know, a corporation could have gone bankrupt and been rejuvenated as another company and rejuvenated again and finally end up as Cesar Industries. So I'm interested in knowing how long Cesar Industries has been around.

MR. D. PLUNKETT: Mr. Chairman, I'll provide that information at the next meeting.

MR. D. ORCHARD: What is the business track record of Cesar Industries to date? What have they done that prompted MTX to seek them out?

MR. D. PLUNKETT: Mr. Chairman, MTX did not seek out Cesar Industries. Cesar Industries approached MTX with some technology which was related to the business of telephone companies. That technology looked to be very attractive for us to acquire and that's why we acquired the technology. It really had nothing to do with the company itself. The technology stood on its own.

MR. D. ORCHARD: Was there an intermediary involved between Cesar Industries and MTX that approached MTX?

MR. D. PLUNKETT: Not to my knowledge, Mr. Chairman.

MR. D. ORCHARD: Is the product line which has been purchased - technology has been purchased I believe for $500,000 U.S. and the marketing rights have been obtained - is that the only product line of Cesar Industries?

MR. D. PLUNKETT: No, it is not. Cesar Industries also manufactures and repairs video equipment and has other products.

MR. D. ORCHARD: Okay. Then Cesar Industries, themselves, presumably either the president, Mr. Cesar, or his chief executive officer, were they the ones who approached MTX with a proposition that the technology should be taken over by MTX? Is that a correct assumption?

MR. D. PLUNKETT: Mr. Chairman, Mr. Cesar demonstrated the technology to us in our offices and we became interested in it.

MR. D. ORCHARD: Now, Mr. Chairman, in the process of seeing this technology and obviously thinking that it was a reasonable technology for MTX, was a business plan developed which would indicate over a period of years what investment would be required to market this technology and what the potential sales are? I suppose what is important as anything, what the projections of net revenues, MTX has made on the basis of investing monies in Cesar Industries and the technology that they provided? Was there a business plan developed?

MR. D. PLUNKETT: Mr. Chairman, whenever we're making an investment, we prepare a business case which is subsequently developed into marketing plans and business plans.

MR. D. ORCHARD: Mr. Chairman, has the Minister seen that business case and business plan?

HON. A. MACKLING: No.

MR. D. ORCHARD: Mr. Chairman, would the Honourable Minister undertake to make that business plan available to members of the committee?

HON. A. MACKLING: I think what I could do is make available to the member and members of the committee projections on the basis of which MTX made its investment. We are involved here in areas, as the honourable member knows, of highly competitive industry.

In respect to our involvement in Saudi Arabia, again, they are highly competitive. There are other telecoms involved in seeking out that activity and we talked about that earlier on in the work of the committee.

To the extent that it would be prejudicial to our competitive position, I don't want, as the honourable member can appreciate, to expose the critical areas of information of MTX.

I gave the honourable member a copy of the MTX financial statement on a confidential basis for that reason. We are in a competitive field and in order to succeed, it's anticipated that we have to have margins and information that we don't want our competition to know about. In addition to that there is, of course, a concern of those with whom we have a contractual relationship if we are exposing to their competitors the information that they have given to us.

I'm not sure about the confidentiality of some of these things with these other people. I really don't know. I know that we're in a highly competitive field and I'd rather not, on a public basis, expose areas that would be considered prejudicial to our operations.

MR. D. ORCHARD: Mr. Chairman, I want to quote to the Minister Note 6(b) under Subsequent Events: "As part of the consideration, MTX will obtain the world-wide marketing and manufacturing rights to the technology."

No one else can compete with your technology. You, theoretically, have purchased world-wide manufacturing and marketing rights. You've done that on behalf of the people of Manitoba who are putting up the money for you to do that. I don't find acceptable the Minister's reticence to table the business plan.

What I would like to see is what MTX projects in terms of their investment needed to carry this project through. I want to have an idea of what MTX anticipates their net revenues will be, because I believe we're not going into this one, surely, to just break even. I think, in the opening remarks by Mr. Plunkett today, he said that they hoped to make substantive gains through this venture. The business plan does not in any way jeopardize any confidentiality because that is an internal projection by the system, using taxpayer money, as to how they believe they can create net revenues. I don't see any problem with the Minister tabling that.

Furthermore, I'd like the Minister to table the agreement that we struck with Cezar Industries and table the agreement that may or may not exist by which we are now a 20 percent shareholder with - and I haven't got It marked down, but I think it was CIL INTEL. whatever, we know who we're talking about. I'd like to see the agreement by which we have put $2 million in for a 20 percent ownership. I don't think, again, that those jeopardized any business position that this Minister is trying to protect.

Furthermore, Mr. Chairman, when we're talking about taxpayer dollars, who are we protecting ourselves from? I mean if the Minister can't share that kind of information with members of this committee, who are attempting to find out whether these investments are going to be good in the long run, then, really, we've got ourselves a serious problem.

HON. A. MACKLING: I don't know whether I can secure an understanding with the honourable member or not, because he is a critic; he has a platform and he's going to act on that platform to the best of his ability to attract support to his performance. But I do appeal to him to recognize that we have a common concern here in an area of commercial activity, to do our best for the shareholders.

I didn't say that there was no way in which I wouldn't share with him or members of this committee, a business plan or projections or whatever. I indicated a concern about placing in a public forum matters that could be prejudicial. I don't know. I confess, I don't know at this stage whether that is so.

What I would like to do is discuss it with staff and perhaps we can share with the honourable member information which, to a fair degree, will provide the information he seeks without exposing the competitive concerns that I have. We will endeavour to do that. It's because I really believe the critic has a right to as much information as we can give without exposing that competitive position. That's why, when he asked me for a copy of the financial statements of MTX, I agreed with that. I'm prepared to do that sort of thing and to cooperate because I believe that the Opposition Critic and the Opposition Party has a right to examine and question every aspect of the involvements that the government has or Crown corporations have.

But there is a difficult area for us and that is where we are involved in competitive enterprise. There may be a philosophic difference that we shouldn't be involved in competitive enterprise but that's another matter. Where we are, there is that problem and I share it with the honourable member. I trust that I can have his goodwill in recognizing that is the position; that we don't sacrifice the interest of the shareholder by putting to unnecessary risk the shareholder's position in competitive fields.

MR. D. ORCHARD: Mr. Chairman, you know, we are elected, and the Minister is elected, to represent the taxpayers of Manitoba and the citizens of Manitoba. To do that, we have to make judgments on where our taxpayer dollars, and money that is being borrowed on behalf of the taxpayers, is going.

I'm not asking the Minister to show me at what price he sells to XYZ this technology. I want to see the business plan, the proposal upon which MTX decided this was good technology and profitable. I want to see their projection of profits and net revenues to MTX, hence to MTS. I want to see whether taxpayer dollars are being spent wisely by investing in a United States Company and buying world-wide manufacturing and marketing rights for technology.

I do that because of past experience. The past experience this morning was 1985-86 revenues to FAST show, I think, a $500,000 loss last fiscal year. That was an enterprise that was presented as money . . . . By the time you take interest out, add interest cost, it is true, Mr. Chairman.

HON. A. MACKLING: That's not so.

MR. D. ORCHARD: Do I have to go through and find the exact numbers for the Minister?

HON. A. MACKLING: Apparently you do because you're wrong again.

MR. D. ORCHARD: Do I have to find the exact numbers for the Minister and waste more time? MTX hasn't showed the profit that they told us they were going to have in Saudi Arabia. Therefore, the reason we want the information is so that we can judge whether this is a good investment on behalf of the people of Manitoba, because, quite frankly, Mr. Chairman, I don't trust this Minister's judgment. He didn't even see the business plan, as he told me this morning. So we want to have that information to protect the ratepayers and the taxpayers of Manitoba. If that's a request that can't be acceded to, then we're running a pretty closed society and not the open government he's talking about.

HON. A. MACKLING: I know the honourable member likes to bandy around figures but I know that he likes to generalize, where it's in his interest to do so. He talked about a $500,000 and-some-odd loss. But the figures that were given to him indicated operating revenues, operating expenses and there were greater revenues than there were expenses. That is without taking into consideration the interest.

MR. D. ORCHARD: What was the interest?

HON. A. MACKLING: But the . . .

MR. D. ORCHARD: No, answer the question.

HON. A. MACKLING: . . . excess revenue over expense must be deducted from the interest expense before you say what the loss is, but the honourable member doesn't. The honourable member always wants to generalize to the worst position, scenario, and such is not the case. The honourable member knows, I think, that when he gave the green light as Minister to FAST, there was a projection given to him that in the initial years it wouldn't be a success story. Like every other enterprise, including farming, you don't pay off your land in the first three or four years. You don't pay — (Interjection) — off your equipment. That's why in the tax systems we "enjoy" - I put enjoy in quotation marks. There are depreciation periods for equipment that are not three, four or five years, but 10 years in many instances.

Now, the fact is that I believe this year last time, he was told that the business plan for FAST was at least six years before we're making money. But right away, he's got to be demanding right now that it makes money net. He knows he was told. He was told as Minister at least six years.

MR. D. ORCHARD: 1985, Mr. Chairman.

HON. A. MACKLING: But at least six years, Mr. Chairman. But he continues to ignore those facts, because the honourable member likes to ignore facts and just spout philosophy.

MR. D. ORCHARD: Mr. Chairman, can the Minister indicate that the loss . . .

HON. A. MACKLING: Committee rise.

MR. D. ORCHARD: Oh, you don't want to hear this. You want to close out information.

HON. A. MACKLING: Information from you, Donny, that's a laugh.

MR. D. ORCHARD: The loss is $459,700.00. I apologize for being $41,000 over.

MR. CHAIRMAN: What's the pleasure of the committee?

HON. A. MACKLING: Committee rise.

MR. CHAIRMAN: Committee rise.

COMMITTEE ROSE AT: 12:33 p.m.