

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES
AND NATURAL RESOURCES
Thursday, 18 June, 1987.

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba.

CHAIRMAN — Mr. C. Birt (Fort Garry)

ATTENDANCE - 11 — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Doer, Schroeder, Storie, Hon. Mrs. Smith (Osborne)

Messrs. Birt, Enns, Filmon, Maloway, Orchard, Santos, Scott.

APPEARING: Mr. C.E. Curtis, Acting Chief Executive Officer, MTS

Mr. G. McKenzie, Managing Partner, The Coopers and Lybrand Consulting Group

MATTERS UNDER DISCUSSION:

Annual Report of Manitoba Telephone System

* * * *

MR. CHAIRMAN: I believe there were a number of questions asked last time that Mr. Curtis, I believe, you'll be providing answers to.

MR. C. CURTIS: Mr. Chairman, there were a number of questions. I'll go through them one by one, if I may.

Mr. Orchard asked: Is there legal opinion from MTX's Saudi Arabian counsel that can be tabled? Legal advice was obtained from Saudi counsel throughout the development and evaluation of the withdrawal options. Initial contact was made in November '86 by Coopers and Lybrand to clarify MTX's position vis-a-vis the various agreements to which the company was party.

Subsequent to that, I met with Saudi counsel in December '86, and extensively in February and March of '87, to discuss MTX's legal position and the optimum strategy that we could develop. Due to the evolving nature of those discussions, no specific written legal opinion was considered necessary. So I received nothing from our legal counsel in writing on the manner in which we developed the agreements, but they were directly involved in writing the agreements.

Mr. Chairman, Mr. Orchard asked the question: What is the extent of the Saudi partners' losses? Based on the November 30 of '86 balance sheets of Datacom Division of both ABI and SADL, our Saudi partner had a cash investment of 7.55 million Saudi riyals or approximately \$2.8 million Canadian, while his share of the 50 percent accumulated deficit to that date amounted to 12.373 million Saudi riyals, approximately 4.7 million Canadian.

In addition, ABI was owed some 800,000 Saudi riyals, approximately \$300,000 Canadian, for services rendered by his company. With ABI's purchase of the SADL shares from MTX, his cash investment will now increase to approximately \$4.5 million Canadian.

Mr. Filmon asked why the Telecom Division losses, that being a division of ABI, are the responsibility of MTX? MTX provided goods from North American suppliers and the staff for technical and managerial positions to Telecom Division of ABI. Telecom Division, although completely separate from the jointly viewed Datacom Division and SADL, was treated in the same manner by the management of MTX. Both divisions of ABI were provided with unsecured financing.

Coopers and Lybrand, in their November 12, 1986 Interim Management Report, cited the rationale given by MTX management for the financing provided to Datacom, but added to that, and I quote: "There is no such rationale for the financing and credit terms provided to Telecom." That's on page 7.

At March 31, 1987, the accounts receivable from Telecom amounted to \$2.5 million, of which \$227,000 was interest charges on the overdue accounts. There were no contractual or security arrangements for the receivables from Telecom Division.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Pardon me, Mr. Chairman. What was the interest figure?

MR. C. CURTIS: \$227,000.00. I would add, Mr. Chairman, that these are, in most cases, approximations depending on the rate of a Saudi riyal.

During the negotiations with MTX's Saudi Arabian partners to sell the shares of SADL, the debts owed by Telecom to MTX were not discussed. Coopers and Lybrand in their report dated April 29, 1987, and I quote again: "MTX interim management relating to analysis and recommendations for withdrawal from Saudi Arabian investments recognized the probable uncollectibility of these accounts. Although further negotiations with ABI regarding Telecom are intended following completion of this agreement, we do not anticipate that there will be any recoveries possible. We are advised by the General Manager of Telecom, a former MTS employee, that Telecom is in serious financial difficulty and is unable to meet its obligations." That's on page 25 of their report.

The same legal options are available to MTX in respect to pursuing the collection of debts from Telecom as there were from Datacom. However, Coopers and Lybrand outlined the factors that limited the practicality of pursuing legal recourse in the Saudi Arabian courts in their report dated June 2, 1987, entitled, "Options for MTX withdrawal from Saudi Arabia."

"The accounts receivable were unsecured," and I'm quoting. "The claim could be disputed on a jurisdictional

Thursday, 18 June, 1987

basis. The interest charges could be excluded from a judgment in the Saudi Arabian courts." The above factors plus the time aspect - that is, five to six years - and the legal costs would lead to the same conclusion stated on page 2 of that report that, again quotes: "In our opinion, there was little likelihood of a favourable judgment for collection of a significant portion of the total receivables."

Mr. Chairman, a further question from Mr. Orchard: Can all of the details of the 8.2 million Saudi riyal contract be provided to this committee? In December 1985 or January 1986, the Datacom Division of Al Bassam International submitted a bid on a contract to supply and install data circuit conditioning equipment for Saudi Telephone. The value of the bid was 36 million Saudi riyals. Datacom was required to post a 1 percent 360,000 Saudi riyal bid bond. In the summer of 1986, the Bid Selection Committee of Saudi Tel confirmed to Datacom that it had been selected to supply a portion of the equipment. However, funding of the project was subject to the Ministry of Finance's approval.

In late August of 1986 - that is, seven months after the formal bid had been submitted and after it had been approved - Mr. Mackling suspended MTX from pursuing new initiatives. Although this item did not fall under the stated restrictions, cancellation and withdrawal was considered. The financial penalty of such actions would be the loss of the bid bond, plus the differential cost between Datacom's bid and that of the successful tenderer. In January of 1987, the Saudi Arabian Budget for fiscal 1986-87 was finally approved. As funding was now available, a Letter of Intent was issued to Datacom Division in late February of 1987, followed by a purchase order dated March 3, 1987 or equipment in the amount of \$8.2 million Saudi riyals. Datacom Division of ABI, not SADL, accepted the order. By this time, discussions had already been held with the Al Bassam's regarding the sale of MTX's shares in SADL and its ultimate withdrawal from Saudi. Datacom did not require MTX's approval to accept the purchase order. The owners of ABI knew that MTX would not be supplying equipment or funding for the project. Datacom is ordering directly from the suppliers and arranging their own project financing. There is no effect on our bottom line.

Another question from Mr. Orchard, Mr. Chairman, we have an agreement where we're still supplying MTX staff. If the sheik refuses to pay them, what is the Telephone System's obligation? Are we going to leave them over there penniless or will MTS, as their farmed-out employer, pay those costs?

At the date of final execution of the agreements whereby MTX sold its shares in SADL to Al Bassam International, there were four Manitobans contracted through MTX to ABI. The details of these employees are as follows: employee's name John Helston, Datacom, contract expiry date, May 9, 1987, seconded from MTS; Neil Porsche, Datacom, June 20, 1987 expiry date, seconded from MTS; Ian Cummings, Datacom, August 23, 1987 expiry date, former MDS employee; Roger Ballance, Telecom Division, January 12, 1988 expiry date, a former MTS employee.

These employees have been in Saudi Arabia throughout the management review period and the stages of the subsequent wind-down period. This process created stress and uncertainty for all employees

in Saudi Arabia during this time frame. Their continued well-being was a primary concern of the negotiations team. In the event that ABI does not pay for the salaries of the remaining Manitoba employees in Saudi Arabia, then MTX would fund their salaries and would consider early termination of the remaining employees' contracts.

I would also add that Mr. Helston has now returned to Winnipeg and Mr. Porsche leaves during the current week. I have also been advised this week that we expect to receive payment for the salaries by next week.

Mr. Chairman, another question from Mr. Orchard, what are the accounts receivable of SADL and Datacom. Is an aged accounts receivable listing for SADL and Datacom available for this committee, showing us the value of the accounts receivable, the customer who owes us the money, and the aging of that account?

Mr. Chairman, we're providing a list which will detail the aged analysis of the accounts for both SADL and Datacom Division. The differences between the totals as shown and the figures on the balance sheet of Appendix I of the Coopers and Lybrand's April 29, 1987 report are due to other minor receivables being included within that balance sheet classification.

With respect to the valuation of accounts receivable, Coopers and Lybrand report of April 29, 1987, entitled "MTX Interim Management Relating to Analysis and Recommendations for Withdrawal from Saudi Investments," identified that the only two options that were considered viable and consistent with the directives to withdraw from Saudi Arabia, that is, liquidation or sale to EBI. The segment of the report illustrates the value of the business and its various assets under the conditions of liquidation.

During my review in Saudi Arabia the extreme age of the accounts receivable was a serious concern. I discussed this with Coopers and Lybrand in Saudi Arabia and they pointed out a number of potential problems, one being the fact that in liquidation accounts were even more difficult to collect; as well, collections from government agencies would be difficult until the final clearances with all government agencies had been obtained. This would be even more difficult given that one partner in liquidation was a non-Saudi. As well given the budget restraints of the Saudi economy the government had directed its agencies to withhold payments of accounts receivable.

Based on the constraints of liquidation the suggested reserve for uncollectible accounts was 100 percent on accounts over 90 days, and 50 percent reserve on accounts from 30 to 60 days overdue. It was recognized that if the business continued on an ongoing basis, collection of accounts receivable might improve, but this would take a considerable length of time to achieve.

Mr. Chairman, a further question from Mr. Orchard. Can you provide the Terms of Reference for the wind-down in Saudi Arabia? The Terms of Reference were established by the Province of Manitoba and appear in three documents: (1) the Terms of Reference under which MTX's withdrawal from Saudi Arabia was planned and executed, were initially outlined in a letter of proposal dated November 28, 1986 from Mr. G. McKenzie, managing partner of Coopers and Lybrand Consulting Group, directed to myself as Acting CEO of MTX.

This letter was in response to the MTX board resolution of November 19, 1986, to retain the services

Thursday, 18 June, 1987

of Coopers and Lybrand Consulting Group, to assist in the orderly winding down of the affairs of the corporation. The proposal letter included the following Terms of Reference in relation to Saudi Arabia, and I quote: "To withdraw from all operations and involvement in Saudi Arabia in a manner that will mitigate any losses incurred by MTX. This will include developing the withdrawal strategy and plans; negotiating withdrawal with the Saudi partner; withdrawing personnel from Saudi Arabia as appropriate; disposing of or recovering assets in the most effective manner; ensuring that all commitments and obligations are respected and/or terminated in a manner that will minimize the corporation's losses."

This proposal letter was presented to the MTX Board of Directors on December 1, 1986, by Mr. McKenzie. The board then approved that MTX enter into a contract with Coopers and Lybrand pursuant to the terms contained in the Letter of Proposal, dated November 28, 1986.

The second reference: The development of alternative strategies and the final selection of one, were based on these Terms of Reference. The April 29, 1987 Coopers and Lybrand report on MTX Interim Management relating to analysis and recommendations for withdrawal from Saudi investments, which was tabled with the Public Utilities Committee on May 21, 1987, restates some of those Terms of Reference in a more specific manner.

The report references are as follows and I quote: "A primary objective is to finalize an agreement which accomplishes a timely and complete withdrawal of MTX from all of its investments in Saudi Arabia." That's on Page 3 of that report. "Under the conditions and requirements laid out by MTS, MTX is unable to extend additional credit to its Saudi investments, except where repayment is assured.

In addition, MTX funds the salaries of certain Datacom employees originally recruited from MTS, in the amount of approximately, Canadian, \$15 per month. A top priority is to eliminate such expenditures as soon as possible. That's on page 4.

However, it is important that MTX realize the optimum return on its investment under either the sale or liquidation options - and that's on page 12.

As the Hon. Gary Doer commented in the June 4, 1987 PUC hearing, some of the conditions of withdrawal were again delineated in the formal response to the PUC, entitled "Options for MTX Withdrawal from Saudi Arabia." That was tabled in the hearing of the same date. In that report, Coopers and Lybrand state that one of the highest priorities was to maximize the returns on both the debt and equity investments in Datacom Division of ABI and Saudi Arabia Datacom Ltd. (SADL).

Careful consideration was given to the legal rights of collection of the accounts receivable from Datacom. The negotiating strategy included a willingness to use the full legal recourses available to MTX in the Saudi Arabian courts.

Mr. Chairman, there was one other question raised by Mr. Orchard at Public Accounts, and it referred to the procedures used by the Department of Finance regarding payments against guarantees under The Financial Administration Act, and there was one loan that was guaranteed by the province under The Financial Administration Act. In fact, the department

was not called on to make any payments against that guarantee. Payments were made directly by MTX.

I think those were the questions.

MR. CHAIRMAN: Thank you.
Mr. Minister.

HON. G. DOER: The other point is, I hope to receive the copy of the audit. Mr. Orchard requested a copy of the MTX audit performed by Mr. Jackson at a Public Accounts Committee and the Minister of Finance authorized me to release that to Mr. Orchard, without prejudice, I think his terminology was, and I believe it was placed in your office, I hope, last evening. So it was available to you. I hope you received it.

Perhaps Mr. McKenzie, who was retained by the province and worked on our behalf, from Coopers and Lybrand, would like to comment at this point, Mr. Chairman.

MR. D. ORCHARD: Mr. Chairman, since we're about a month-and-a-half behind on Hansard for this committee, are copies of each answer given by Mr. Curtis available?

HON. G. DOER: I've got the last three committee hearings myself, Mr. Orchard, the unedited version. I know these are Mr. Curtis' notes. If the Hansard can't be available on an urgent basis, perhaps we could formalize his notes on those specific answers.

I would ask the Hansard Office to certainly put a priority on that, with the permission of the Opposition.

MR. D. ORCHARD: Mr. Chairman, I don't know whether Mr. Curtis left any portions of his notes out in his direct quote into the record. Maybe Mr. Curtis could indicate whether anything was left out in his notes.

MR. C. CURTIS: I don't believe so, Mr. Chairman.

MR. D. ORCHARD: Given that Mr. Curtis is indicating that there's nothing in his notes that was not put verbatim onto the record, what is the difficulty with providing a photostat copy of those instead of waiting several weeks or whatever for the unofficial transcript?

HON. G. DOER: I'll indulge to get the unofficial transfer. I notice, looking at Mr. Curtis' notes, there are lines though his things and they are his notes, etc., so I would suspect that we would want to have those if they were going to be intended to be handed out. If Hansard can't be produced, the information will be provided to the member opposite.

MR. D. ORCHARD: Mr. Chairman, I'm at some difficulty, for instance, in pursuing the February '87 contract that was approved. There were a number of pieces of information, dates, times, etc., etc., that are rather important in determining what the down-side of accepting that contract was.

Now, if we're going to sit again, presumably, that information will be in written form to me by that time and we can pursue it at that time. If that is the most convenient thing for the Minister, that those notes that the Acting CEO quoted from verbatim cannot be made

Thursday, 18 June, 1987

available tomorrow or whatever, then we simply delay the questioning of those areas, because I think you can appreciate that no one can take notes as fast as the information was given.

We contrast rather substantially from the method used in answering questions posed on May 21, 1987, where the question was written out, the response was written out and the attachment was given. This time we don't have that.

HON. G. DOER: Yes, we can provide those tomorrow.

MR. D. ORCHARD: Since the Minister has indicated that he has provided me with the information, Mr. Chairman, the information the Minister provided me with is the identical information that I quoted from at Public Accounts. So possibly the Minister or Mr. Curtis could indicate whether, in the appendix attached to the May 28, 1985 letter from Mr. Jackson to the then-Minister responsible for the Manitoba Telephone System, Mr. Mackling - and I'll give him a copy because it's the same one I quoted from the other day - in the appendix, which is an appendix dated April 29, 1985, Provincial Auditor's Office, in the second paragraph of the first page of the appendix, it says, "Internal Audit . . ." - and I believe we established at Public Accounts that "Internal Audit" was an internal audit of the Manitoba Telephone System - ". . . has completed a review of the operations and has prepared a report on their observations. We conducted an overview audit of MTX for 1984-85 which included a review of Internal Audit's report." That Internal Audit's report, I believe we established at the Public Accounts meeting it was this one, and it was agreed by the Provincial Auditor that this is the one he went through.

And here is the operative line: "Our overview observations of MTX's operations are included in a separate report." In discussion of Public Accounts, that separate report was taken as notice by the Minister of Finance as to whether it was able to be given to members of the Opposition. It was first established, prior to that, that a copy of that overview went to the Minister of Finance of the day, and it was presumed a copy of that overview went to the Minister responsible for the Telephone System, presumably Mr. Mackling.

Now I believe that we were perfectly clear in understanding that the overview requested was a separate report from the one I was quoting from and the same report that was given to me by the Minister yesterday.

Is there a separate report or has that story changed since Public Accounts that there is no separate report as the Provincial Auditor has indicated in his April 29, 1985 summary to the Minister responsible for the Telephone System?

HON. G. DOER: Mr. Chairman, I recall the Member for Pembina requesting who was present with the former chair of the board, Mr. Miller, in terms of the internal audit of MTX, and I think we provided that name to you and said that that individual was working at Telecom Canada but would be available if the member so desired. The issue of the overview audit which was forwarded to you, dealing with MTX operations for the year ending March 31, 1985, I assumed, and I wasn't

trying to assume otherwise, was the document you required.

I will again take that under notice. I wasn't Minister in 1985. I have the documents. This is the one I had on MTX, the Overview Observation from the Auditor for the year ending March 31, 1985, which we provided to the member. If there's another document, I certainly will take that as notice. It was the intent to give you that information in terms of the overview observations of the Auditor that I thought was pursuant to your request.

MR. D. ORCHARD: Well, Mr. Chairman, you know this copy of the copy I quoted from that was provided, as the Minister said, without prejudice, was information given to us back in November with no qualification, without prejudice.

In committee, I was very specific with my questioning but unfortunately Hansard is six weeks behind. The Public Accounts questions put to the Auditor were very specific, and Mr. Curtis was there as Deputy Minister of Finance. There was, according to the Provincial Auditor, an overview. I'll quote directly: "Our overview observations of MTX operations are included in a separate report."

Now how could you say there's a separate report in the report you're tabling as the report that's a separate report? I mean that simply doesn't make sense, and I don't believe that the Provincial Auditor was confused when he indicated that he sent to the Minister of Finance and presumably to the Minister of the Telephone System, prior to April 29, 1985, an overview observation of MTX's operations which are included in a separate report.

It's the separate report I wish. I've already got the one you've given me. I've had it for six months.

HON. G. DOER: In terms of the overview audit for MTX, I'll double-check it, but I believe that that's the document that we assumed was what you required. I'll double-check. As I say, I haven't got Hansard, but I recall the questions yesterday in the House asking for the overview audit of MTX and that was what I thought we were providing last evening.

MR. D. ORCHARD: Well, Mr. Chairman, maybe for the convenience of the Minister, he could establish with Mr. Curtis whether that paragraph - and we can go through it again if you wish - but it basically says, "Our overview observations of MTX's operations are included in a separate report." To me, that clearly indicates the Provincial Auditor has said on his April 29, 1985 report that he provided an analysis in a separate report to the Minister of Finance. There are two reports.

We have one which indicates the existence of the second report. The second report is of value.

HON. G. DOER: Perhaps I could see what you have.

MR. D. ORCHARD: What I have is identical to what you gave me yesterday.

HON. G. DOER: There's another document that is very similar. I know where the confusion is. There is another . . . I'll have it xeroxed and provide it to the member.

Thursday, 18 June, 1987

MR. D. ORCHARD: Is it a document dated April 2, 1985?

HON. G. DOER: A document, "Overview Observations for the Year Ended March 31, 1985" but it is . . .

MR. D. ORCHARD: Is that dated April 2, 1985?

HON. G. DOER: I beg your pardon?

MR. CHAIRMAN: Mr. Orchard, what document are you referring to?

MR. D. ORCHARD: Well, the Minister has indicated that there's some confusion.

HON. G. DOER: Yes, there's another one, May 28, 1985, dealing with the overview observations for the year ended March 31. I'll have that xeroxed and provided to you.

MR. D. ORCHARD: April 28, 1985?

HON. G. DOER: May 28. This is signed April 2, 1985, so it's a slightly different document.

MR. D. ORCHARD: Now there are three documents from MTS, not two?

HON. G. DOER: I beg your pardon?

MR. D. ORCHARD: Are there now three documents on MTX-MTS Saudi Arabia operations and not two as we previously believed the Provincial Auditor had?

HON. G. DOER: I'll give you the two documents that you requested.

MR. D. ORCHARD: Now, Mr. Chairman, presumably, the document I'm going to get is dated May 28, 1985? That wouldn't perchance be a covering letter from the Provincial Auditor to Mr. Mackling as Minister responsible?

HON. G. DOER: It's a covering letter and a three-page observation sheet.

MR. D. ORCHARD: And is that three-page observation sheet dated April 2, 1985, out of the Provincial Auditor's Office on the third page?

HON. G. DOER: Yes, it is.

MR. D. ORCHARD: And that is one and the same report which is considered the overview observations as referenced in the April 29, 1985?

HON. G. DOER: As far as we know, yes.

MR. D. ORCHARD: In terms of "as far as you know," could you check with the Provincial Auditor and assure us that that is the overview observation?

HON. G. DOER: I'll double-check that. I think you have both documents, don't you?

MR. D. ORCHARD: Indeed, I do.

HON. G. DOER: So I thought. Okay.

MR. D. ORCHARD: Mr. Chairman, there were a number of questions I had but possibly Mr. McKenzie might want to, as the Minister has so kindly offered, provide us with some overview of his observations.

MR. CHAIRMAN: Mr. McKenzie.

MR. G. MCKENZIE: As Mr. Curtis indicated earlier this morning, our firm was retained in early December by the board of MTX to undertake the orderly winding down of the operations in Saudi Arabia. That work was undertaken under my overall direction and included our results in Canada as well as our colleagues in Saudi Arabia.

In undertaking the work, we did implement a context of the board directive to provide the orderly winding down of MTX in an expeditious and timely manner, but also in a manner which represented a sound business arrangement. Fundamentally, four elements guided us in terms of those negotiations and ultimately the recommendation that we tabled or set out in our report of April 29, 1987.

The first guideline was that we wanted to negotiate the best terms that were possible in order to optimize the financial return to MTX and therefore the Government of Manitoba. In interpreting that guideline, it is important to recognize that we were dealing with a business which in our November report we described as not viable. So, therefore, we were dealing with a business in Saudi Arabia, the value of which was very questionable.

The second element of the guideline was that the negotiations be conducted in a timely manner because, as set out in our report, this company was continuing to incur losses on a day-to-day basis, and given the geography of Canada versus Saudi Arabia and the responsibilities that MTX had with respect to certain elements of cost that prolonged discussions, negotiations, etc., will be costly to MTX.

The third guideline was that we wanted to ensure throughout these arrangements that the employees of the Government of Manitoba, resident in Saudi Arabia, received the adequate support in terms of the contractual obligations which they had committed themselves to.

Our last guideline was that any arrangements would be realistic and would provide optimum or maximum security of protection to MTX and to the Government of Manitoba, in terms of the terms and conditions of the options.

We looked basically at two options, a liquidation option either under the jurisdictions of the Government of Saudi Arabia; or a liquidation under the direction or supervision of one or both of the partners.

The second option was the sale of the interest in Saudi Arabia and, in our judgment, the only viable party who could be interested in the purchase of that business was the Saudi partner, the Sheik Al Bassam's family. Given the financial condition of lacking viability we did not see that it was feasible and we got counsel from our partners in Saudi Arabia who confirmed that given

Thursday, 18 June, 1987

the condition of the business, the economy, etc., the sale to another third party was not feasible.

So we then went through a process of analysis which we've set out in our report in April 1987 of the strategy and the detailed examination of the financial affairs, the business affairs of the Saudi operation. That detailed analysis confirmed our November report. In fact, things were probably even worse from the point of view of the realizable value of the assets. A detailed examination of the financial record, for example, indicated that values would be placed on certain fixed assets, which in point of fact had no basis in reality.

So we came to the conclusion that the liquidation option, either under the courts or under the supervision of one or both of the partners was the more costly process, and our report sets out the range of possible end result. As one can appreciate, those values are based on our best professional judgments in terms of estimates.

We then looked at the sale option and negotiated with Sheik Al Bassam an arrangement which, in our judgment, does provide the best possible return under the most favourable conditions in keeping with the guidelines I mentioned earlier.

I'd have to make the observation however, that it's the best deal under a bad transaction.

MR. D. ORCHARD: Mr. Chairman, there are a number of questions that I would like to ask of Mr. McKenzie. Some of them probably should be posed directly to the Minister because he was presumably fully informed along the way and involved in the decision-making.

Mr. Chairman, there's so many questions it's almost difficult to determine where to proceed from. Primarily though I gather from your remarks, Mr. McKenzie, that speed of withdrawal was probably the foremost criterion laid on your firm, to get out of Saudi Arabia, and presumably also to attempt to get out with the least future exposure to the telephone system, speed was the utmost consideration. Is that a fair assumption?

HON. G. DOER: Mr. Chairman, the question was asked if speed of withdrawal was laid on. I just would like to comment on that. Obviously Mr. McKenzie has already referred to the fact that the protracted involvement in Saudi Arabia had a very high cost element to it, with very questionable returns.

I want to make it very clear to this committee that at no time did the government, through myself, say leave tomorrow, no matter what. The fact that one could look at the protracted terms of settlement over the next two years and show probably as Mr. Curtis has indicated, he had to twist my arm on that one because of the political ramifications, but I wanted a good business decision in terms of the orderly withdrawal - and the term orderly withdrawal with the most prudent manner possible for our exposure there - was the operative term, not laying on a cavalry retreat without proper analysis.

Mr. McKenzie may want to respond because there's two parts to the question.

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

MR. CHAIRMAN: Just a second, Mr. Orchard.

Mr. McKenzie.

MR. G. MCKENZIE: Just to clarify, the word I used in terms of our guidelines was "timely", not speed of withdrawal.

MR. D. ORCHARD: I recall expeditious being used as well. Mr. Chairman, I won't argue with either Mr. McKenzie or the Minister, although the Minister's the one that uses the terminology, "cavalry retreat," not myself, and when he has some sensitivity about the verbal discussions he had with Mr. McKenzie, I don't.

HON. G. DOER: I thought, Mr. Chairman, Old West comparisons were appropriate for the Member for Pembina, but I wanted to use that terminology to illustrate that obviously - and let's be honest - this was not the best political issue that we were dealing with, and you know that, I know that, everybody in this room knows that.

Given that it made more sense politically to be out, but we didn't say to them, we didn't ever lay on instructions that prudent and orderly wind-down would be accepted on the basis of political priorities. In fact, we asked them to be prudent and orderly and I want to make that very clear to the committee. So there was no laying on of speedy withdrawal. Orderly withdrawal was what we were asking for.

MR. D. ORCHARD: Mr. Chairman, to Mr. McKenzie, on page 26 of your Summary Report on the withdrawal from Saudi Arabia, the second point on that page, "We understand that the owners of ABI find this agreement acceptable for the following reasons. And the second point being, that it keeps the business from being liquidated and thereby subject to public and government scrutiny in Saudi Arabia."

What is your reasoning for putting that in there? What was your assessment of the impact of public and government scrutiny on ABI and its operations and hence our operations in Saudi Arabia?

MR. G. MCKENZIE: Well, there's basically two factors. Under Saudi law as we understand it from legal counsel, the liquidation of the business does have to follow a varied process which includes disclosure as well as regular reporting to the government authorities.

The Al Bassam family, in addition to their interest in the Saudi Arabian venture, have other business interests, which if they were involved in a liquidation of the SADL and other Telecom ventures, would have a significant negative impact on those other business ventures. So part of their motivation was protection of their other investments.

The other element of it is their stature in the business community. They were very concerned that publicity which had originated in Canada was already adversely affecting their position in the community and they were prepared to take whatever steps necessary to terminate that publicity. So to that extent - both for business as well as personal reasons - they were prepared to make commitments that otherwise they might not have done.

MR. D. ORCHARD: Mr. Chairman, that's only one mention on the page 26 when it says "avoidance of

Thursday, 18 June, 1987

public and government scrutiny." It's in the Plunkett Report, it's in some of the other audits. It's been around since 1984 - references to avoidance of public and government scrutiny.

You might recall the only reason why we ended up with Coopers and Lybrand being called in and the government taking action, was the tabling of a sworn affidavit which alleged illegal activities. The Government of Saudi Arabia might be quite concerned about illegal activities of one of its national companies, either by itself or in a joint venture.

Not having been there and not having access to legal counsel, not having access to SADL board minutes, etc., etc., is there any indication that that might also be part of the concern? Because kickbacks were alleged in the affidavit. Is there any speculation that might be part of the reason as well?

HON. G. DOER: Mr. Chairman, I want to clarify one point that the member makes. As I recall it - and I'll check the record - but as I recall it, the facts were that the audit was announced at the beginning of the hearing, and the affidavit with the alleged - both financial questions and the alleged criminal wrongdoing - was tabled some time a couple of hours after that. So the audit was announced by the former Minister, as I recall it, at the same hearing prior to the affidavit and the second set of actions, which is the RCMP investigation. The RCMP is still investigating the criminal wrongdoings. The reference in the report - and Mr. McKenzie may want to elaborate - but the reference in the report is the reasons why ABI wanted to negotiate; in terms of the provincial government, we wanted the most orderly and prudent wind-down. That wasn't a factor in our consideration. Our consideration was the prudent and orderly wind-down.

MR. G. MCKENZIE: I cannot comment with respect to the question of the motivation of the Saudi government because we've had no exposure or discussion. I suppose it is a reasonable assumption that if there was illegal action that they would initiate such an action or legal recourse against the parties. One of the terms of conditions however, of this arrangement, is that the Government of Manitoba - MTX in particular - are relieved of any legal obligations by the Bassams.

I'm not especially qualified to comment as to whether that would protect the parties in the event of wrongful or criminal action being initiated by the Government of Saudi Arabia.

MR. D. ORCHARD: Mr. Chairman, possibly either Mr. McKenzie, Mr. Curtis or Mr. Doer - particularly Mr. Doer - might be able to answer whether they reviewed the minutes of the SADL Board meetings?

MR. C. CURTIS: We did, to the extent that we needed to go back and refer to the minutes, yes.

MR. D. ORCHARD: Mr. Chairman, are those minutes available for tabling at this committee?

HON. G. DOER: Mr. Chairman, I'll take that question as notice.

I want to review them all. I believe there are some commercial aspects potentially to them and there is

potential, as Coopers and Lybrand has indicated in their follow-up question to a question the honourable member raised, we have a better course of legal action if the present agreement is not followed through on by the firm that we've sold the company to. I don't want to do anything to prejudice future court action, so I'll take that question as notice.

MR. D. ORCHARD: Mr. Chairman, the court action that the Minister is concerned about prejudicing, am I correct in assuming that it is court action to collect on a promissory note that you have yet to receive on the payment for the company you have just sold?

HON. G. DOER: As Coopers and Lybrand indicated at the last hearing, the potential for court action is enhanced in terms of a possible recourse with the present agreement.

MR. D. ORCHARD: So that to give a straight answer to a direct question, it is the court action of collection of promissory notes that we have yet to receive, not guaranteed by the banks, that the Minister is referring to - that court action?

HON. G. DOER: Or any other court action arising out of this agreement.

MR. D. ORCHARD: Mr. Chairman, I think the Minister should check his opening statement when he indicated that this agreement relieves us of lawsuits by our partners in Saudi Arabia and presumably our creditors in Saudi Arabia.

Is he now saying that we are not relieved from those lawsuits?

HON. G. DOER: I think if you'll check the follow-up statement, it clearly indicates that there are obligations that we must meet in terms of the lawsuits and we are meeting them. There are obligations the partner must meet, and we trust that he will meet them; but if they don't, we have to have a contingency. I don't want to say anything further because I don't want to prejudice any future decisions we have to make.

MR. D. ORCHARD: Well, Mr. Chairman, that's a most interesting statement the Minister is making now in that we were told that we were free and clear a month ago, and now he is telling us that something that the partner might be sued for will have an implication on us when we've sold him the business?

HON. G. DOER: I merely said that there's commitments that we must make and we have in the agreement. In terms of the agreement, we are meeting those commitments and we, therefore, are free and clear as we indicated. Also, as Coopers and Lybrand and Mr. Curtis indicated, there are commitments the other partner must meet, and that's a fact of public record, and I don't want to say anything further because there's an agreement. We trust that it will be met.

MR. D. ORCHARD: Mr. Chairman, getting back to my question about the board minutes of SADL and Saudi Arabia, since the partner is not going to sue us - that's

Thursday, 18 June, 1987

part of the agreement; since the partner was the only one that was involved in the board meetings of SADL and Saudi Arabia, our joint venture - we've got an agreement which says he will not sue us; we have completely thrown up our hands and lost the \$20 million in Saudi Arabia through all of these business issues; therefore, there is not a competitive reason why those minutes should not be made public.

Is the Minister still saying that he can't make those public when our agreement, presumably, precludes the partner in Saudi Arabia from suing us? We have no more business interests; we are going to live up to our commitment, which I understand is providing some personnel and some technical support? We say we are going to live up to that; you just said that Mr. Minister. What possible jeopardy in this signed, sealed and delivered package could tabling of the minutes of the board meetings of SADL have on this government?

HON. G. DOER: First of all, I didn't say we wouldn't table them. I said I would take the question as notice, and I will, and I'll be prudent in terms of what we tabled, in terms of all the implications. I'm not going to give an impulsive answer at this committee. I would rather be prudent and take that question as notice. I didn't say I wouldn't release them; I didn't say I would, and prudence dictates that kind of response.

MR. D. ORCHARD: Mr. Chairman, can Mr. Doer indicate whether he has seen any of the minutes of the SADL Board Meeting?

HON. G. DOER: I'm trying to recall. I've certainly reviewed all the reports from Coopers and Lybrand, the overview reports, and some of the strategic options. I did read the minutes of the MTX Board; I didn't read the SADL minutes. I know that Mr. Curtis was reviewing those documents and I was relying on his good judgment and advice.

MR. D. ORCHARD: Mr. Chairman, can anyone answer whether the RCMP have had access to those board minutes?

MR. C. CURTIS: Mr. Chairman, I can't answer for certain. They did come in and ask for a substantial number of documents and background material, and we provided what they had required. They were satisfied with what we had provided to them.

HON. G. DOER: If the RCMP want the SADL minutes for review of the criminal investigation, they will have them.

MR. D. ORCHARD: Mr. Chairman, in any of the minutes that Mr. Curtis reviewed of SADL, were there any discussions on backsheish, kickbacks, anything like that, to accomplish business sales in Saudi Arabia?

MR. C. CURTIS: Mr. Chairman, I can't recall such a discussion or any reference to the minutes.

HON. G. DOER: One would think that'll jump out at you.

MR. D. ORCHARD: Mr. Chairman, that's the reason why we'd like to have access to the SADL minutes.

HON. G. DOER: Notwithstanding the fact that I took it under advisement, if there is any reference to that, firstly, the RCMP will have it the second we see it. I'm sure Mr. Curtis would have noticed it, but we'll double-check. But, you know, he was reading a lot of documents at that time; I don't want to put him on the spot.

Secondly, we will make it immediately available to the RCMP. Then we will confirm that with you, as the critic, subject to RCMP advice, but we will inform you as we are able to do, given the criminal investigation.

MR. D. ORCHARD: Mr. Chairman, to Mr. McKenzie.

The wind-down scenario that you have proposed in your final report consistently discusses, and I've only got one of the references here in front of me, but it's mentioned in other places within the report.

On page 6, the middle paragraph, it indicates that Financial and Management Information Systems continue to be inadequate and severely restrict the ability of the owners of the business to monitor results and determine the necessary steps to improve performance.

There are a number of other comments, but basically what I read, and I appreciate that this was not yourself that was reading this. According to your report, it was Mr. Curtis that conducted the review and was supported by your staff in Saudi Arabia. The words are, "... supported by the professional opinion of the Coopers and Lybrand affiliate office in Saudi Arabia."

Mr. Chairman, to Mr. McKenzie: You've come to a conclusion that the business had limited financial viability, as you stated in the original report, and you reconfirmed that in your latest analysis.

The question that I'd like to pose to you is, given that basically this look by Mr. Curtis has been described as a snapshot of the assets in place in the company, without a review back to inception of the business operation, and in reviewing that business operation, of course, one would come up with an idea of exactly where the \$20 million went - it's been assigned to inventory - but yet, in the one document that was tabled with us to explain the losses, inventory, I believe, was only \$28,000, which is not a very sizeable portion. Well, Mr. Chairman, I intend to get into that aspect of it later on this morning.

Mr. McKenzie, given that you didn't have a series of complete financial statements to look at to find out the revenue potential or lack thereof of the company, it seems to me a quick conclusion was made, saying that the financial viability wasn't there, etc., the question being, if you were undertaking this for, say, a private sector company, do you think that you would make that kind of a recommendation based on a snapshot after four years of operation without reviewing the profit and loss statements, the operational statements of any company that you're asked to recommend a withdrawal process for?

MR. G. MCKENZIE: The April 1987 report is the conclusion of an examination which started in September 1986, or into a portion of November.

A point of fact is a review of Saudi operations from its inception, and we came to some very fundamental conclusions with respect to that period of time, and

Thursday, 18 June, 1987

the underlying factors which allowed us to draw the conclusion that the business was no longer viable.

The report described any number of differing elements of mismanagement, ranging from the financing through to the structuring of the deal in the first place - how the management direction had been exercised, etc.

The analysis that was conducted in the February-March 1987 period - and I had personally direct discussions with a partner in Alkhubar when I took this work - a summarization of that is included as an appendix in our April '87 report, and it shows what adjustments are necessary to bring the corporate financial records to a realistic liquidation value.

Our assessment, based on both discussions with our staffing in Saudi as well as Mr. Curtis, following his visit, our assessment of what the cost would be beyond that liquidation value in order to implement this course of action, we drew the conclusion that it would have ended up with the need for MTX to put further money in in order to discharge obligations. So there was no realizable value that would accrue to MTX as a result of that course of action.

I'm satisfied, given the period of some six to seven months of professional examination of this venture, that we have, and I quote in our report, "notwithstanding the fact that the detailed audit not being done, the analysis that had been done, I'm satisfied, frankly was more meaningful than an audit would have been because we got behind the numbers and understood what was the realistic position of the inventory, of the fixed assets, etc. The February-March investigation, or analysis, confirmed our worst fears as concluded in our November report.

Reality is that the financial statements, including audited financial statements from previous years, were not representative of the condition of the business. It was one of the significant factors we drew in terms of the accountability, or influenced our conclusion in terms of the accountability of management in Canada for the unfortunate circumstances surrounding the SADL venture.

MR. D. ORCHARD: Mr. McKenzie, did you or your affiliate come to the conclusion then that pursuit of collection of the Telecom account receivable was not a realistic option?

MR. G. McKENZIE: The Telecom division of ABI?

MR. D. ORCHARD: Yes.

MR. G. McKENZIE: We deliberately set that aside in order to achieve the negotiation with respect to the sale of the SADL interest to the Bassams. The opportunity still rests to take legal action for collection. Our judgment is unlikely to be very successful given Saudi law, given where we are in Canada and the costs that would be required, but it is an option that's there. No decision has been taken to my knowledge to say that there will be no action taken or not. No decision has been taken at this point in time.

MR. D. ORCHARD: Has the Minister made a decision not to pursue that?

HON. G. DOER: If I were to receive advice from Mr. Curtis and from Coopers and Lybrand that there was a likelihood or a possibility of any financial return to the province by pursuing any action, I would be open to that advice and I'd want to review it. I have not received that advice and I have an open mind to it.

MR. D. ORCHARD: To Mr. McKenzie, I believe - or maybe it's Mr. Curtis - has indicated that the accounts receivable with Telecom division was discussed with a former MTX employee who is heading up the Telecom division who told you that ABI Telecom was not in good financial condition, therefore the likelihood of pursuing collection was low. Is that the only analysis of the financial situation of ABI Telecom or ABI in Saudi Arabia that was done?

MR. C. CURTIS: That's correct.

MR. D. ORCHARD: Mr. Chairman, the Minister presumably is going to base his opinion as to whether we pursue the Telecom \$2.5 million account receivable collection on the basis of a former MTX employee who is now working as the manager of the Telecom division, who says there's no money in the division. I guess my question to Mr. McKenzie would be, in Saudi Arabia, is there something similar to Dun and Bradstreet that gives relative financial ratings on such companies as ABI, ABI Telecom, etc., to determine the financial strength of those companies?

MR. C. CURTIS: I asked that question over to our lawyers and was advised there is no such similar organization as Dun and Bradstreet and that the laws in Saudi protected individual business people from having to provide information to third parties.

As well, in talking to the manager of Telecom, who is an ex-MTS employee and is slated to come back in January of 1988, he was very much concerned with the financial condition of Telecom to the extent that he wanted an opinion from our lawyer regarding his potential liability as the manager of that organization. He felt that they were in very dire straits and that potential for our collection was minimal.

MR. D. ORCHARD: You mean, Mr. Chairman, it is the opinion of one of our former employees and only on that opinion that this conclusion has been made, no other independent research or seeking of facts or financial statements have been attempted or made available?

MR. C. CURTIS: The matter was discussed with our solicitors and given the background regarding Datacom itself, they felt that probably that was a fairly accurate assessment.

MR. D. ORCHARD: Mr. Chairman, on a number of occasions, if my memory serves me correct, Mr. Curtis and Mr. Doer have indicated that ABI, the company owned by the Saudi sheik and its division, Telecom, were in poor financial situation. Were those statements concluded from an analysis of the books of those companies?

MR. C. CURTIS: No, I did not look at the records of Telecom. I was relying on the discussions that I've had

with our person who is the general manager and has a very current insight into the ongoing operation of the business.

MR. D. ORCHARD: And this individual is the same individual, the general manager of Telecom?

MR. C. CURTIS: That's correct.

MR. D. ORCHARD: Mr. Chairman, again, the financial ability of ABI and Telecom division, our knowledge of it is contained within one individual's opinion, no independent opinion, if you will, no analysis of any books made available, simply a verbal opinion from a general manager who is or was an MTS employee?

MR. C. CURTIS: That is correct.

MR. D. ORCHARD: Well, Mr. Chairman, that's interesting that we made our conclusions that we could not pursue any further collections, etc., on the basis of one individual's opinion, the former employee of Telephone System and the man who ran the company. I mean, quite frankly, I find that astounding.

It's not worth pursuing because I will be accused of bullying Mr. Curtis who is a career civil servant and I don't want to have any impression left that I'm bullying Mr. Curtis, but the people of Manitoba, the taxpayers of Manitoba, are being bullied into \$27 million, and we don't get any answers as to how this happened, as to whether a company that was our partner in this loss of \$27 million had any financial strength other than in the opinion of an employee. If we follow the rhetoric that was given to us that our employees ran Datacom, ran SADL, ran it into the ground, therefore we could not sue. Well now, here we're relying on an opinion of another employee of ours who is saying that he's worried about the financial situation and his personal situation, because Telecom is in such bad financial shape under his management and we're relying on his opinion as to whether there's any collection ability. I find that astounding.

HON. G. DOER: Well, Mr. Chairman, as I recall, there was some analysis, maybe I'm wrong, in the original Coopers and Lybrand Report - had some look at Telecom, but perhaps Mr. Curtis, who was dealing with this individual, could respond.

MR. C. CURTIS: Mr. Chairman, we did attempt, as I mentioned, it's difficult to try and establish if the Bassams did have any other assets or any other businesses that might provide some form of collection action on our part. Any review that we tried to undertake indicated to us that the operations that they were engaged in were in difficulty.

Our solicitor had knowledge of one business that was considered to be in quite poor shape. He also was aware from his dealings with the bank that Telecom itself was in difficulties with the bank that was working with the Telecom division.

So we attempted to explore whatever avenues we could and any reference that we could come up with indicated that the financial position of the Bassams was not good.

MR. G. MCKENZIE: Perhaps I could help put Mr. Orchard's concerns in context.

First, in reference to the \$20 million loss, our November 1986 report sets out the individual elements which add up to that \$20 million. In essence - and we'll have the report this morning - that loss occurred because the management of MTX saw fit to finance 100 percent of the Saudi operations and did not call upon the Saudi partner to participate in the financing.

So what you had was both inventories, accounts receivable and operating losses being fully financed by the Canadian partner and as a result there was an imbalance in terms of the financial state between the two partners. Again, I say that this was one of the reasons that we came to the conclusion that one had to hold those managers accountable for the condition which MTX found itself in, in terms of Saudi Arabia.

The second element that one has to look at beyond the financing was the structuring of a deal from a legal perspective. By creating this double venture with inventory going in through one company and then selling pretty well retail within the country, it set up legal barriers which again worked to the detriment of the Canadian partner.

So you put those two factors together, you find yourself at a significant disadvantage in terms of trying to get a Saudi partner to share in the financing and therefore the losses. So that's the first question.

The second question in terms of the specific account receivable that you refer to, the reason we didn't want to raise the collection of that account at this point in time is you wanted to complete the negotiations with respect to the sale to the Bassam family. Given the background of concerns that Mr. Curtis has expressed in terms of their financial capability, we felt that our first priority was to secure our position with respect to that transaction.

My advice to the Minister in due course will be, let's now do another investigation after July 2 when those notes have been deposited and then we'll assess whether to take action or not. I think that would be a prudent course of action. That will still mitigate against taking any legal action which I believe at this point in time would be premature - to draw any conclusion in either way.

MR. D. ORCHARD: Mr. Chairman, who was the General Manager of Telecom and I presume from a previous answer by the Minister that he will be returning in 1988 to the Telephone System?

HON. G. DOER: I believe Mr. Curtis said January 1, 1988. I believe that was information produced to the member in response to the employee issue.

MR. D. ORCHARD: Could you refresh my memory as to who the individual is that is the General Manager of the Telecom?

MR. C. CURTIS: Mr. Chairman, his name is Roger Ballance.

MR. D. ORCHARD: Now, Mr. Chairman, this is a side issue entirely. But given that apparently Mr. Ballance in operating Telecom Division, ran it into the ground,

Thursday, 18 June, 1987

are you confident in his abilities to give him a job in the Telephone System?

HON. G. DOER: Mr. Chairman, all the individuals are being assessed of their contractual requirements and their place in the Telephone System.

Some six weeks ago, Mr. Chairman, the Member for Pembina was criticizing us for acting too harshly with employees. If employees, and there's still some matters to be concluded, but I would leave it to the advice of Mr. Curtis to go to Mr. Robertson in terms of (a) our legal obligations, and (b) the appropriateness of any person in redeployment.

Persons have been redeployed but not all of them have been redeployed to the same job as they had before, and I would leave that matter to the assessment of the two managers.

MR. D. ORCHARD: Mr. Chairman, Mr. McKenzie indicated earlier on that the structure of the agreement in Saudi Arabia with the importing by a company, a sale internally to a second company, etc., etc., left some difficulty in pursuing collection measures. I'm presuming that from his answer.

Could the Minister indicate whether the documents, the contracts, the agreements, legal in nature, referred to by Mr. McKenzie, were drawn up internally or externally within the Telephone System?

HON. G. DOER: I'll have to take the specifics as notice. We are doing a full analysis and tracking of the legal advice that was received throughout, and I mentioned throughout the MTX issue. As I've indicated before to the committee, that has not been completed yet.

MR. D. ORCHARD: Mr. Chairman, I want to deal briefly with the accounts receivable, that are accounts receivable of Datacom Division of ABI that were tabled this morning, and the accounts receivable of SADL, as our joint venture over there.

Now, presumably with this sale, all of these accounts receivable become the property of the new owner, namely the ABI, Sheik Al Bassam's company. Is that correct?

MR. C. CURTIS: That is correct, Mr. Chairman.

MR. D. ORCHARD: Mr. Chairman, in going through the accounts receivable, which total \$1,766,000, rounded to the nearest thousand, we've got a number of what, without knowledge of Saudi Arabia, we've got a number of fairly prominent companies - just to go through them: Kuwait Airways; Ministry of Planning, which is government; Saudi American Bank; Saudi Educational Services, which one would presume might be government; Saudi Telecom - I don't know whether that's a telephone company in Saudi Arabia similar to MTS, used to paying its bills, I don't know; Sperry Arabia, it sounds like a reasonably-sized company, maybe in conjunction with Sperry Rand.

Going on to the next page, we've got National Commercial Bank, Riyadh Bank; Saudi American Bank; Saudi British Bank; Saudi Business Machines - I believe which is a division of IBM in Saudi Arabia - Saudi Arabian Airlines.

Going to the SADL account - accounts receivable - if I can find them. We have no specific names but, basically, if I can follow through, they are relatively recent accounts, with the exception of a major account, which is said to be to Saudi Telex for \$540,000.00. My question to Mr. Curtis and to Mr. McKenzie or both is, what analysis did you do on these accounts receivable to determine how collectible they were?

MR. C. CURTIS: Mr. Chairman, I obtained the aging from the accounts while I was over there. I went over the accounts, the major accounts with the accounting staff and asked much the same kinds of questions, why were these being so slow in being collected?

The answer that I had on most of the major accounts was either there were problems with the account, that is the servicing hadn't been finished or warranties had been precluded, or they were suffering from the instructions from the Saudi Government that all government accounts or agency accounts would be withheld from payment, given the financial fiscal position of the country. I referred the same question to our Coopers and Lybrand office in Saudi and they confirmed that this was in fact the case, that there were problems in collecting even what would be perceived as reliable accounts and that probably they would be collected in due course. However, given the fact that the company would either be liquidated and wound down, in that case the accounts would become even more difficult to collect. In a wind down the payments are normally withheld until the final wind down and that would take, in their view, something like 3-5 years.

MR. G. MCKENZIE: Mr. Orchard, on page 17 of our April report you refer to the review conducted by our affiliate in Saudi Arabia. They recommended a reserve for uncollectability of accounts of some 3.3 million Saudi riyals, which is about 1.2 million Canadian funds versus the 1.7 of the aggregate amount in that listing.

The reasons for recommending that reserve are similar to the ones Mr. Curtis described, but it's also important to put this in context. I said in my opening remarks that one of our guidelines was that we be realistic, and in assessing from my perspective, in assessing under the liquidation scenario what was the real value of these accounts receivable, I had to take in mind the 3-5 year time frame and a dollar today is worth a hell of a lot more than from 3-5 years from now, as you know. And so I discounted further, in my own judgment, beyond that 1.2 million reserve in looking at this question of liquidation value, in addition to the direct costs that would be involved over that period of time.

It obviously raises the question if the new owners can do any better than we could under the liquidation. The trade off there again was the uncertainty of dollars today in terms of the proposed sale versus what you could get some 3-5 years now, and that's a judgment call and I had to make the call in terms of which option was the more attractive.

MR. D. ORCHARD: Mr. Chairman, in ball park figures, a judgment call gave to the new buyer about a million and three-quarters of accounts receivable, some of them from banks, government, etc., etc., a cash outlay of over \$1.3 million.

Thursday, 18 June, 1987

HON. G. DOER: And the Epson guarantee.

MR. D. ORCHARD: And the Minister is quick to add the Epson guarantee which had not cost the new buyer anything if he performs the contract.

HON. G. DOER: It was a liability that was identified in the report that affects the whole trade-off that you're describing, plus the costs of recovering the accounts receivable.

MR. D. ORCHARD: Mr. Chairman, the bottom line is that for a cash outlay of \$1.2 million or \$1.3 million, our business partner, the sheik in Saudi Arabia, has gained access to \$1.75 million of accounts receivable.

MR. C. CURTIS: I'll just make the one point then, Mr. Chairman. One factor we had to look at was the fact that there were trade accounts payable owing in Saudi of approximately \$1.4 million, Canadian. Those would have to be paid off.

MR. D. ORCHARD: Mr. Chairman, can we then proceed, since Mr. Curtis has indicated "trade accounts payable," the answer on May 21, 1987 to my question as to where did the money go - we've got an MTX Telecom Service and I'll tell you what to do. I'll give you an extra copy of it so that you'll know which one I'm referring to, because I think I've got an extra copy here, so we have no confusion. I had an extra copy. Well, I believe I'm going to have to renege on that because my extra copy is not here.

Basically, it's the answer you tabled last committee meeting. It says in here that MTX Telecom Services Inc., from the SADL and Datacom operations, have accounts receivable as of March 31, 1986 of \$11,839,000 and accounts receivable, 1987, presumably accounts receivable accumulated from January 1, '87 to the time of this report, a time in which we have shut down the operation in Saudi Arabia - correct me if I'm wrong - we have a further accounts receivable of \$3,289,000.00.

Now those are the accounts receivable from SADL and Datacom which we have sold for \$1.3 million cash. Those are the accounts payable of those two companies to MTX. Am I correct in assuming that?

MR. C. CURTIS: That's correct.

MR. D. ORCHARD: Above the accounts receivable, in inventory, we have \$28,000.00. Is that a correct figure?

MR. C. CURTIS: That's correct, yes.

MR. D. ORCHARD: Given that this Minister and his predecessor placed the mandate that we are winding down our operations in Saudi Arabia, that cease and desist, how is it that from January 1, 1987 to the time of the writing of this report, which was approximately four months ago, did we manage to accumulate \$3,289,000 of accounts payable to MTX if we had wound down the operation? Where do those emanate from?

Mr. Doer might want to answer that one since he's been involved step by step with every decision here as the Minister of Crown Investments, not only the Minister of the Telephone System.

HON. G. DOER: Well, I wasn't with all of those at the time that the member is referring to. I did say that the advice I received from Mr. Curtis and Coopers and Lybrand was based on the best assessment and analysis that they received.

We didn't say cease and desist on November 21. We said, "provide an orderly wind down," so let's have that on the record. Notwithstanding the orderly wind down, the people on-site, Deputy Finance Minister Curtis and Coopers and Lybrand, as you heard this morning, provided us and me with recommendations, whose judgment I respected and whose advice I followed.

Mr. Curtis, perhaps to the specific question?

MR. C. CURTIS: Yes. Mr. Chairman, the amounts paid subsequently were largely for salaries, outstanding accounts and interest for five months under the management agreement. Of course, that was set up as accounts receivable and wasn't paid. Our system was to set that up on our accounts.

MR. D. ORCHARD: It's obvious that Mr. Curtis is quoting from a breakout list of the accounts receivable.

I wonder if that might be made available.

MR. C. CURTIS: I'm sorry. I thought this was the same report that you were referring to.

MR. D. ORCHARD: I realize that. That's why I would like to see your report.

MR. C. CURTIS: It's the same report.

MR. D. ORCHARD: Mr. Chairman, am I correct in assuming - and Mr. Curtis can answer this - in the breakdown that I've got, and it says accounts receivable, 1987, \$3,289,000.00.

Are those accounts receivable to MTX from the operations in Saudi Arabia that we sold for \$1.3 million cash, and were they incurred in 1987 after we had wound down the operations.

MR. C. CURTIS: They were incurred from April 6 through to that period. As I mentioned, the largest single item as I recollect - and I haven't got the specific figure - was for interest that had been set up as owing on our books. This increased our accounts receivable by reason of the interest that we were claiming.

MR. D. ORCHARD: Are there any accounts receivable resulting from the \$8.2 million Saudi riyal contract that was entered into in February '87?

MR. C. CURTIS: No there's not Mr. Chairman.

MR. D. ORCHARD: Mr. Chairman, in terms of the \$15,128,000 accounts receivable figure, a combined figure, how much of that \$15,128,000 is from the Datacom division versus SADL? I'm believing of course, Mr. Chairman, that that figure is a combined figure of accounts payable by both SADL to MTX and Datacom division to MTX. What is the separation?

MR. C. CURTIS: Mr. Chairman, I believe the largest amount is with respect to Datacom.

MR. D. ORCHARD: Now, which we have always been told prior to some further investigation that Datacom was a free standing entity, legal entity, of ABI. Was it a legal entity of ABI? Was it legally formed as Telecom was legally a division of ABI. Was Datacom a legal division of ABI?

MR. C. CURTIS: It's an operating division of ABI. That's correct.

MR. D. ORCHARD: As an operating division of ABI only owing us a substantial portion of the \$15,128,000 - we've been through this before, but I want my memory refreshed - if it's an operating division of ABI and owes us a substantial portion of \$15 million, why would we give up that account receivable for \$1.3 million in cash and the same time give them opportunity to collect on \$1.75 million of accounts receivable in those two companies?

MR. C. CURTIS: Mr. Chairman, the amounts that were included in the accounts receivable are for shipments of goods and basically goods and supplies to Datacom division. These are either items that were sold and are in the accounts receivable of Datacom, or are in inventory, or are represented by ongoing losses of the total Datacom SADL operation. The loss position is a very, very significant position in the overall operation of Datacom. They were losing substantial amounts of money.

MR. D. ORCHARD: Mr. Chairman, inventory came up again, but yet we've established that inventory is \$28,000.00.

MR. C. CURTIS: No, it's not. Mr. Chairman, I'm talking about the inventory in Datacom. This accounts receivable represents transactions with Datacom for the sale of goods to Datacom. Now, either the goods were sold or they are in inventory. The inventory in Datacom is quite sizable. That was another area that we looked at carefully while I was there, and I had the view of both the auditors and the solicitors that since a good part of the inventory was outdated probably the resale value was substantially reduced. A good part of the inventory was technical in nature and had been superseded by newer kinds of equipment.

I was concerned about putting a valuation on the inventory and had some difficulty in trying to establish what market value, if any, there was on a good part of the inventory.

MR. D. ORCHARD: Mr. Chairman, going through the sheet that Mr. Curtis has in front of him, I believe it says SADL and Datacom operations. We've established that as far as accounts receivable go, we have included in there accounts receivable from SADL, accounts receivable from Datacom. When I asked the question about inventory, \$28,000 was the correct figure about five minutes ago. Now \$28,000 is not the correct figure. Is the inventory not for Datacom as well as SADL?

MR. C. CURTIS: Mr. Chairman, the inventory figure referred to on this analysis refers to MTX inventory, not the inventory of Datacom or SADL. The accounts

receivable, to a large extent, financed the inventory and the sales of the inventory in Saudi Arabia.

The major components are for supplies sent to Datacom and for interest charged against the accounts.

MR. D. ORCHARD: Mr. Chairman, it's impossible, unless one reconstructs from Telephone annual reports, the value of sales to Saudi Arabia through MTX. We've got a circumstance here of accounts receivable as of the time we sold this company, of \$1.75 million of accounts receivable, presumably on sales and service contracts in Saudi Arabia. We've operated four years. I believe, if some of the glowing statistics put out by Mr. Doer's predecessor are correct, that we purchased somewhere in the neighbourhood of \$15 million worth of goods, and a lot of it was from Manitoba.

Obviously, those goods went to Saudi Arabia. They were invoiced to Datacom. Those goods were in turn sold by Datacom and serviced by SADL. Accounts receivable were established. Presumably they were sold at a profit, a markup of some sort in Saudi Arabia. So we've got \$15 million to \$20 million worth of goods shipped over there. We've got accounts receivable crowding \$15 million through MTX as a result of those shipments to Saudi Arabia, but on the other hand, we've got \$1.75 million in accounts receivable.

In other words, SADL and Datacom have been paid for our shipments to Saudi Arabia, because it doesn't make sense to say that a big chunk of the \$15 million is inventory, etc., unsold, or whatever. You have been shipping to Saudi Arabia, and the accounts receivable by the company as a result of their sales are \$1.75 million. Somewhere in there was a massive amount of money that was collected by those companies, not remitted to MTX to pay the accounts receivable of MTX for shipment of those supplies. Yet we don't know where it went. That's why I find it difficult to accept this whole scenario of orderly wind-down without having a look at the operation statements over four or five years to determine what the level of sales, how much the cash flow of that company was, and where that cash flow went. Because we have, I believe, heard from you, Mr. Curtis, that the sheik is terribly upset at any indication that he might have profited from this operation over there. Yet the numbers don't add up to anything other than someone making off with one heck of a chunk of money, because the accounts receivable are there so that we weren't paid.

The accounts receivable in the company are low, but yet we've been shipping them literally millions and millions of dollars of equipment over a four-year period. Obviously with only \$1.75 million accounts receivable from the Saudi sales arm, be it SADL or Datacom, somewhere money disappeared. Who benefited from that? Maybe Mr. McKenzie can answer that.

MR. G. MCKENZIE: Maybe Mr. Curtis and . . . - (inaudible)-.

MR. C. CURTIS: A couple of observations regarding Mr. Orchard's concerns.

The inventory value is reflected on the combined books at approximately \$5.8 million Canadian. In addition, sales forecasts over quite a number of years have never been met. Therefore the continuing losses

have, to a very large extent, eaten up the amounts of what otherwise would have been gains from the sales of the product that were sent over. The losses are very sizeable and that is referred to in the report of Coopers and Lybrand. It's referred to on pages 13 and 15 of the report. There is quite a substantial breakdown of how it's occurred.

MR. D. ORCHARD: Which page is that again, Mr. Chairman?

MR. CHAIRMAN: Thirteen and 15, Mr. Orchard.

MR. D. ORCHARD: And that's in the most recent report?

MR. C. CURTIS: Mr. Chairman, could I make one further comment?

I read into the record on behalf of Coopers and Lybrand, a statement providing additional further information on the manner in which the business was operated and its unprofitability. That's referred to on pages 2 and 3 of the report and it was tabled June 2 of '87.

MR. D. ORCHARD: Mr. Curtis' explanation is helpful but it's also very enlightening. We've got a \$15 million receivable, in round figures, from SADL and Datacom in Saudi Arabia. Mr. Curtis has indicated that their evaluation of inventory is \$5.8 million. Is that evaluation of the invoice value?

MR. C. CURTIS: That was the book value.

A MEMBER: Not the asset value.

MR. C. CURTIS: No, that was one of the problems, the fact that the apparent value was significantly lower.

MR. D. ORCHARD: But this is book value so that when we're talking about accounts receivable - in other words, MTX invoiced Datacom for a computer and they charged them \$1,000.00. That became part of the \$5.8 million inventory at \$1,000, not at what it could be fire sold for.

MR. C. CURTIS: No, it's book value.

MR. D. ORCHARD: We're talking apples and apples.

MR. C. CURTIS: Yes, that's right.

MR. D. ORCHARD: We've established we're talking apples and apples, so we've got \$15 million, rounded, of accounts receivable. We've got \$6 million of inventory, in rounded figures, generous to the operation both ways. That leaves, Mr. Chairman, \$9 million, in presumably of inventories shipped and sold. Presumably, because I don't think we're invoicing for too much else.

We've got accounts receivable in the corporation of \$1.75 million, elementary figuring, and this time I won't round to \$2 million, but elementary figuring would come to the conclusion that there is \$7.25 million. Add in the rounding from before, and you've got \$7.5 million of sales we've made to Saudi Arabia for which,

presumably, not only has our joint venture in the sheik's division, Datacom, been paid the \$7.5 million, but also presumably a markup because they're not selling them at cost. So there could be approximately, given the 30 percent that was in this analysis report of a markup - you add 30 percent to \$7.5 million and you've got roughly \$10 million that went into those two companies that's non-existent today. Where am I wrong in my analysis?

MR. C. CURTIS: As I mentioned, there's a fairly sizeable amount of interest that was charged and that's approximately \$1.5 million. Of course, there are salaries and other expenses that we've paid as manager, and there are very sizeable operating losses which have eaten into the cash proceeds of the operation.

MR. D. ORCHARD: Mr. Chairman, the more we ask questions on this, the more it appears as if there isn't knowledge in where the money went. Am I being too rapid in my conclusion of that?

MR. C. CURTIS: Mr. Chairman, I'm not aware that the records of the operation have not accounted for all of the activities. We've done comparisons of what monies we've contributed, what the losses were, what the inventories are valued at, what the accounts receivable are, what the accounts payable are, and we have no indication of any amounts that could be perceived as being not accounted for.

MR. D. ORCHARD: Mr. Chairman, then presumably . . .

HON. G. DOER: Mr. McKenzie also stated that their analysis, the seven-month analysis, was better than, in terms of the circumstances, a potential long or protracted audit.

MR. D. ORCHARD: We're not talking about the future; we're talking about where the money went.

MR. C. CURTIS: Mr. Chairman, with reference to Mr. Orchard's question, our report in April describes the position of MTX in Saudi Arabia, and as at March 31, there's going to be . . . - (inaudible)-.

The question you are raising is a very complex one because, without being disrespectful, elements of information are being put together and I think a conclusion is being inferred which is very difficult orally to relate to.

My comment would be, or suggestion, Mr. Chairman, as soon as the transcript is available, and a confirmation of a specific question that you seek an answer to could be agreed upon, then I would be happy, with your indulgence, to respond with a professional response.

I feel somewhat irresponsible today to respond to that question because we're dealing with operating losses, complex financing arrangements in terms of legal structures, and different currencies. All these factors influence the accuracy of the response.

MR. D. ORCHARD: Mr. Chairman, I know the Minister would concur to that. That would be exactly what we're looking for.

HON. G. DOER: As I say, there was a report provided at the last committee hearing, which is in more detail than the first committee hearing in terms of this question raised.

Based on the last report we provided, we were asking for another report further breaking it down. We can do that. Our attempt all along has been to put this issue on the table.

MR. D. ORCHARD: Mr. Chairman, I appreciate what the Minister is saying. In that very detailed report in April from Coopers and Lybrand, on page 15, it says due MTX, 34 - rounded, \$35 million Saudi rials. Well, at the exchange rate, that's approximately \$10 million.

Yet the answer I was given on May 21, 1987 indicated the accounts receivable from these operations total \$15.1 million Canadian. Like, there's only a 50 percent error there.

So, understand that as much as I may be picking and choosing information out of context, you can see there's lots to pick and choose from. One day you say there's \$10 million, roughly, of accounts receivable that are due to MTX, then the next day you say there's \$15 million.

That's confusing to me; that's confusing to everybody.

HON. G. DOER: Mr. Chairman, the original report, there were questions raised on the original report. There was further detail provided. You've asked for detail beyond that point. Mr. McKenzie has taken that under advisement. He said it's a very complex issue, many of these numbers, because of, as he has stated, all the complexities of the organization.

Mr. Curtis perhaps would want to further respond to that point.

MR. C. CURTIS: Mr. Chairman, certainly there are relatively minor variations in the figures that we've quoted from time to time, largely because of the exchange rates we've used. But Coopers and Lybrand did sum it up, I think, in a clear fashion on page 3 of the report that we tabled on June 4. Really, what we're looking at is the erosion of the assets that we provided, and our parties have provided, by operating losses of about \$9.3 million. Those are very significant losses.

MR. CHAIRMAN: Mr. Orchard, just before you ask your next question, I think there was agreement to rise at 12:00.

MR. D. ORCHARD: Agreed.

MR. CHAIRMAN: I know don't when we're meeting again. I'm wondering, if you have further questions that you may want provided later . . .

MR. D. ORCHARD: That's exactly what I want to do, yes.

MR. CHAIRMAN: . . . that we could get them on the record now.

MR. D. ORCHARD: Mr. Chairman, in the numbers that I was developing, that Mr. McKenzie will attempt to ferret out the reality of, we had an accounts receivable,

or accounts payable by the two companies in Saudi Arabia to MTX, of \$15 million. Six million of that was inventory, at invoice price presumably.

What would be very, very informative in the whole analysis is to determine the value of shipments by MTX to Saudi Arabia, to SADL or to Datacom, but presumably it went to Datacom because they were the only importer. So that if we can determine that there was \$20 million, and I'm picking that figure completely out of the air, of sales to our joint venture and Datacom division in Saudi Arabia, we should be able to deduct from that, presumably, the inventory of \$5.8 million.

We should be able to then determine roughly what the sales of that equipment equated to in Saudi Arabia. What I'm trying to do is reconstruct books that don't exist.

We are told now that there are only \$1.75 million of accounts receivable. If we've got \$15 million of sales on equipment sold, that's not in inventory, invoiced by MTX, then somewhere in there, there's at least \$13 million that has been collected, if you follow my rationale, by the Saudi company. Where did it go? That's the bottom line. We keep on eluding this answer.

MR. C. CURTIS: Again, Mr. Chairman, I come back to the fact that the sales have not produced gains; they produced substantial losses.

MR. D. ORCHARD: I can't understand how the hell you can lose money by selling something and not paying the purchaser for it. We haven't been paid for, well, \$13.5 million, because \$1.5 million of that is interest; some of it is salary.

Presumably we got \$10 million of equipment reshipped; \$6 million of it's in inventory. There's only \$1.75 accounts receivable. Somebody got paid for it and we don't know where the money went.

MR. C. CURTIS: Mr. Chairman, one thing that appalled me when I was there was the fact that, in my view, the operating costs were very excessive given the size of the sales operation.

MR. D. ORCHARD: Maybe we could have a breakout of the salaries paid.

MR. C. CURTIS: The salaries, and the lease cost, the operating cost, the cars, a very expensive operation.

MR. D. ORCHARD: Mr. Chairman, here we're getting into the operation statements that presumably aren't available for SADL and Datacom in Saudi Arabia. That's exactly what we need to determine whether someone ripped off Manitoba taxpayers for \$20 million. I'm glad we're getting close to having those at committee.

HON. G. DOER: Mr. Chairman, if you take a \$2 million loss per year for five years, it's \$10 million, salaries, rent, expenses, etc. The issue of the "ripoff," I think is why the RCMP were called in immediately when the matter was raised at committee. We await the RCMP report.

MR. D. ORCHARD: No, they're reporting on kickbacks.

HON. G. DOER: That's all, all the issues raised . . .

Thursday, 18 June, 1987

MR. D. ORCHARD: It's different from a ripoff.

HON. G. DOER: . . . in the affidavit. There were a number of issues raised.

This operation lost money on everything it did. That's what Mr. Curtis has said; that's what Mr. McKenzie said.

MR. CHAIRMAN: Mr. McKenzie, thank you for attending this morning. I hope the charm of some of the members does not deter you from coming back and adding further to questions.

This committee is adjourned.

COMMITTEE ROSE AT: 11:59 a.m.