



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

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**STANDING COMMITTEE**

on

**ECONOMIC DEVELOPMENT**

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37-38 Elizabeth II

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*Chairman*  
*Mr. H. Pankratz*  
*Constituency of La Verendrye*



**VOL. XXXVII No. 5 - 10 a.m., THURSDAY, FEBRUARY 23, 1989.**

**MANITOBA LEGISLATIVE ASSEMBLY  
Thirty-Fourth Legislature**

**Members, Constituencies and Political Affiliation**

| NAME                            | CONSTITUENCY       | PARTY   |
|---------------------------------|--------------------|---------|
| <b>ALCOCK, Reg</b>              | Osborne            | LIBERAL |
| <b>ANGUS, John</b>              | St. Norbert        | LIBERAL |
| <b>ASHTON, Steve</b>            | Thompson           | NDP     |
| <b>BURRELL, Parker</b>          | Swan River         | PC      |
| <b>CARR, James</b>              | Fort Rouge         | LIBERAL |
| <b>CARSTAIRS, Sharon</b>        | River Heights      | LIBERAL |
| <b>CHARLES, Gwen</b>            | Selkirk            | LIBERAL |
| <b>CHEEMA, Gulzar</b>           | Kildonan           | LIBERAL |
| <b>CHORNOPYSKI, William</b>     | Burrows            | LIBERAL |
| <b>CONNERY, Edward Hon.</b>     | Portage la Prairie | PC      |
| <b>COWAN, Jay</b>               | Churchill          | NDP     |
| <b>CUMMINGS, Glen, Hon.</b>     | Ste. Rose du Lac   | PC      |
| <b>DERKACH, Leonard, Hon.</b>   | Roblin-Russell     | PC      |
| <b>DOER, Gary</b>               | Concordia          | NDP     |
| <b>DOWNEY, James Hon.</b>       | Arthur             | PC      |
| <b>DRIEDGER, Albert, Hon.</b>   | Emerson            | PC      |
| <b>DRIEDGER, Herold, L.</b>     | Niakwa             | LIBERAL |
| <b>DUCHARME, Gerald, Hon.</b>   | Riel               | PC      |
| <b>EDWARDS, Paul</b>            | St. James          | LIBERAL |
| <b>ENNS, Harry</b>              | Lakeside           | PC      |
| <b>ERNST, Jim, Hon.</b>         | Charleswood        | PC      |
| <b>EVANS, Laurie</b>            | Fort Garry         | LIBERAL |
| <b>EVANS, Leonard</b>           | Brandon East       | NDP     |
| <b>FILMON, Gary, Hon.</b>       | Tuxedo             | PC      |
| <b>FINDLAY, Glen Hon.</b>       | Virden             | PC      |
| <b>GAUDRY, Neil</b>             | St. Boniface       | LIBERAL |
| <b>GILLESHAMMER, Harold</b>     | Minnedosa          | PC      |
| <b>GRAY, Avis</b>               | Ellice             | LIBERAL |
| <b>HAMMOND, Gerrie</b>          | Kirkfield Park     | PC      |
| <b>HARAPIAK, Harry</b>          | The Pas            | NDP     |
| <b>HARPER, Elijah</b>           | Rupertsland        | NDP     |
| <b>HELWER, Edward R.</b>        | Gimli              | PC      |
| <b>HEMPHILL, Maureen</b>        | Logan              | NDP     |
| <b>KOZAK, Richard, J.</b>       | Transcona          | LIBERAL |
| <b>LAMOUREUX, Kevin, M.</b>     | Inkster            | LIBERAL |
| <b>MALOWAY, Jim</b>             | Elmwood            | NDP     |
| <b>MANDRAKE, Ed</b>             | Assiniboia         | LIBERAL |
| <b>MANNES, Clayton, Hon.</b>    | Morris             | PC      |
| <b>McCRAE, James Hon.</b>       | Brandon West       | PC      |
| <b>MINENKO, Mark</b>            | Seven Oaks         | LIBERAL |
| <b>MITCHELSON, Bonnie, Hon.</b> | River East         | PC      |
| <b>NEUFELD, Harold, Hon.</b>    | Rossmere           | PC      |
| <b>OLESON, Charlotte Hon.</b>   | Gladstone          | PC      |
| <b>ORCHARD, Donald Hon.</b>     | Pembina            | PC      |
| <b>PANKRATZ, Helmut</b>         | La Verendrye       | PC      |
| <b>PATTERSON, Allan</b>         | Radisson           | LIBERAL |
| <b>PENNER, Jack, Hon.</b>       | Rhineland          | PC      |
| <b>PLOHMAN, John</b>            | Dauphin            | NDP     |
| <b>PRAZNIK, Darren</b>          | Lac du Bonnet      | PC      |
| <b>ROCAN, Denis, Hon.</b>       | Turtle Mountain    | PC      |
| <b>ROCH, Gilles</b>             | Springfield        | LIBERAL |
| <b>ROSE, Bob</b>                | St. Vital          | LIBERAL |
| <b>STORIE, Jerry</b>            | Flin Flon          | NDP     |
| <b>TAYLOR, Harold</b>           | Wolseley           | LIBERAL |
| <b>URUSKI, Bill</b>             | Interlake          | NDP     |
| <b>WASYLYCIA-LEIS, Judy</b>     | St. Johns          | NDP     |
| <b>YEO, Iva</b>                 | Sturgeon Creek     | LIBERAL |

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

**Thursday, February 23, 1989**

**TIME — 10 a.m.**

**LOCATION — Winnipeg, Manitoba**

**CHAIRMAN — Mr. Helmut Pankratz (La Verendrye)**

**ATTENDANCE — QUORUM - 6**

*Members of the Committee present:*

Hon. Messrs. Ernst, Orchard

Mrs. Charles, Messrs. Kozak, Maloway,  
Minenko, Pankratz, Storie, Mrs. Yeo

**APPEARING:** Mr. Ted Chiswell, Acting General  
Manager

**MATTERS UNDER DISCUSSION:**

1986-87 Annual Report - Manitoba  
Development Corporation

\* \* \* \*

**Mr. Chairman:** We will have to deal with replacements first of all. I will read them out to you.

"I wish to resign from the Economic Development Committee effective February 23, 1989, Ed Connery."

Now we need a replacement.

**Hon. Jack Penner (Minister of Natural Resources):** Mr. Chairman, I move that Mr. Ernst (Charleswood) replace Mr. Connery (Portage la Prairie).

**Mr. Chairman:** All in favour? Agreed.

"I wish to resign from the Economic Development Committee Thursday, February 23, 1989, Judy Wasylycia-Leis."

**Mr. Jim Maloway (Elmwood):** I move that Mr. Jerry Storie (Flin Flon) replace Judy.

**Mr. Chairman:** Committee agree? Mr. Orchard.

**Hon. Donald Orchard (Minister of Health):** Oh, I do not know about that.

**Mr. Chairman:** All agreed.

"I wish to resign from the Economic Development Committee effective February 23, 1989, Laurie Evans."

**Mrs. Gwen Charles (Selkirk):** Mr. Chairperson, I wish to nominate Iva Yeo.

**Mr. Chairman:** Committee agree? Agreed.

"I wish to resign from Economic Development Committee effective February 23, 1989, Neil Gaudry."

**Mrs. Charles:** I wish to nominate Mark Minenko in replacement of Neil Gaudry.

**Mr. Chairman:** Mr. Minenko has been nominated, all in favour? Committee agree? Agreed.

The committee is here this morning to—Mr. Penner.

**Mr. Penner:** Mr. Chairman, there should be one more resignation. I was going to tender my resignation. Has that not come forward?

**Mr. Chairman:** No, Mr. Penner, that has not at the present.

**Mr. Penner:** It should have.

**Mr. Chairman:** Okay, this committee is called to order to consider the Annual Report of the Manitoba Development Corporation, 1986-87 Annual Report, and I would like to ask the Minister for his comments if he has any and also possibly to introduce his committee Members.

\* (1005)

**Hon. Jim Ernst (Charleswood):** Thank you very much, Mr. Chairman, and good morning, Members of the committee.

I would like to introduce firstly the new chairman of the Manitoba Development Corporation, Mr. Marcel Taillieu, to my left. Mr. Taillieu was appointed in September along with the new Board of Directors. I would also like to introduce Mr. Ted Chiswell, who is the acting manager of the Manitoba Development Corporation. To Mr. Taillieu's left, Mr. Alex Musgrove, who is the corporate secretary of Manitoba Development Corporation, as well is here, and we also have Mr. Fisher who is a consultant, I guess, with the Manitoba Development Corporation sitting in the back here.

I am also pleased to announce that we have six new directors of the corporation. They are Mrs. Grace Gillespie, who is the vice-chairperson, who is from Winnipeg; Mrs. Lorette Courcelles from St. Malo; Mr. Arnold Morberg from Thompson; Mr. Aaron Redekop from Niverville; Mr. Eldon Ross from Winnipeg; and Mr. Lorne Sharfe from Winnipeg. They were appointed also at the same time as Mr. Taillieu back in September.

I would like to take this opportunity to thank the former directors for their contribution that they made to the Manitoba Development Corporation.

I am also pleased to report to you that the Flyer Agreement provisions are coming to an end. During the year, most of the retrofits were completed. Any uncompleted warranties are included in the provision

for divestiture costs as noted on the balance sheet. Most other Flyer issues were close to settlement by year-end.

I am also pleased to report that Flyer total estimated cost is increased by approximately 3 percent which is less than the inflation rate for the year. We continue to experience difficulty in determining exactly what warranties that ultimately the corporation may be liable for. However, I can assure you that we are assessing each one individually with meticulous care from both the legal and engineering perspective.

The corporation continues to provide services on behalf of the Province of Manitoba relating to Part II agreements. We provide consulting services on the original agreements, credit advice and monitor loan payments.

I am pleased to report that the Part I portfolio continues to perform satisfactorily except for one account. You may recall that in fact MDC has not made any new loans under Part I of its agreement since 1977.

I am pleased to report the sale of a building in Brandon that we owned under lease option agreement with Federal Pioneer Electric. As a result of the sale we have profited by \$215,703 also as noted in the financial statements.

I am also pleased to report to you that we have resolved the problems identified with the audit report reservations. We are now charging and receiving a fair fee for our work in connection with the former Jobs Fund. Last year we had estimated that Churchill Forest Industries of The Pas Forestry Complex would be settled. Unfortunately another issue has arisen, a minor one, which precludes that conclusion. However, we are still hoping to have the matter settled very shortly.

I am pleased to report, however, that the Saunders Aircraft matter has now been settled completely.

Mr. Chairman, I would also like to express my appreciation to the staff of MDC and what have been interesting times over the past while and should also point out to the Members of the committee that the report we are dealing with, that is the 1986-87 report, is considerably obviously outdated by this point. That report, of course, was—and the control of the corporation was—under a board and under a different Government, so that any of the activities that have gone on the auspices of that report were neither under the control of Mr. Taillieu as the board chairman, the existing board, or for that matter myself as the Minister responsible.

So that, Mr. Chairman, is all I have to say and I am pleased to answer any questions.

**Mr. Chairman:** Thank you, Mr. Minister. Before I go to the Members of the committee for questions, we have one more resignation.

“I wish to resign from the Economic Development Committee effective February 23, 1989, the Honourable Jack Penner.”

**Mrs. Charles:** Mr. Chairperson, with particular pleasure I would like to nominate the Honourable Donald Orchard to replace Mr. Penner.

**Mr. Chairman:** With no objections, Mr. Orchard, you are now a committee Member.

Then I would like to ask the committee Members whether we want to impose a time frame on the questioning of this report. Obviously it does not seem that we want to do that. Then how do we want to go through this report, page by page, or do you want to take the general report in total? Personally, I think it would be best if we would do that and also possibly identify ourselves as to which ones or where we would like to ask the questions from.

**Mr. Mark Minenko (Seven Oaks):** In light of the Minister's previous comments that the report we are studying this morning relates to matters under the previous administration, does he have anyone with him who would be able to answer any of the questions with respect to this report then?

**Mr. Ernst:** Mr. Chiswell has been in the employ of the Manitoba Development Corporation for some time as has Mr. Musgrove and Mr. Fisher. So they should be able to respond to the technical questions, at least that you may have to raise.

\* (1010)

**Mr. Chairman:** Is it the will of the committee to question the report in its entirety? Agreed? Okay. Then I would now welcome questions to the Minister.

**Mr. Richard Kozak (Transcona):** On page 12 of the Annual Report before us, the third line from the bottom refers to an allowance for losses relating to A. E. McKenzie Co. Ltd. I wonder if the Minister could elaborate on the \$6,643,761 write-off provided on that line in fiscal 1987.

**Mr. Ted Chiswell (Acting General Manager):** There was a new policy in 1986-87 to re-evaluate investment in all Crown corporations and as a result the McKenzie Seeds shares were written down to their book value. So that really takes care of the accumulated losses in McKenzie Seeds applicable to the preferred share portion.

**Mr. Kozak:** These are preferred shares that we are discussing at the moment. They do presumably have a face value which has not changed in the accounting period. The corporation is also presumably liable for any dividend payments related to the preferred shares and our understanding has been that the performance of A. E. McKenzie Co. Ltd. has not been substantially worse in recent years. What would the justification be for writing down the valuation of the province's investment in McKenzie Seeds?

**Mr. Chiswell:** There has been some recent—well, I guess they are not recent, but there have been some policies that have been established by the Government that they want to recognize losses in Crown corporations so you will see that last year the write-down did not exist, but in order to recognize losses when they occur our policy now is that we will recognize all losses. I

can tell you that McKenzie has had a slight profit this year but we still did not recognize the profit. We only recognized losses.

**Mr. Kozak:** I would like to thank Mr. Chiswell for his answer and I very much understand what he is saying. I would, however, like to ask him further whether it would not be more usual to write down the province's investment in McKenzie Seeds related to common shares rather than to preferred shares.

**Mr. Chiswell:** That is a good question. We feel, though, as one of the key investors that we have to evaluate our investment in McKenzie Seeds and our investment therefore must be evaluated on the basis of their losses to date. So even though we are a preferred shareholder this is really a recognition by us that we have an investment that is not worth what we are showing it on in our books.

**Mr. Kozak:** The province, according to my understanding, does have a common share investment in McKenzie Seeds as well. What would the investment be carried at on the province's books at present?

**Mr. Chiswell:** Sorry, I cannot answer you that. I think it is at a nominal value though.

**Mr. Kozak:** In that case, the contention is that the only option for the Government was to write down its preferred share investment since there was not common equity in the required amount to accomplish the write-down.

**Mr. Chiswell:** I believe that to be true.

**Mr. Chairman:** Thank you, Mr. Chiswell. Anybody else have any—Mr. Minenko.

**Mr. Minenko:** Mr. Chairman, I would leave the answer to the question open to whoever is in the best position to answer it. With respect to the differences between the Part I operation of the corporation and Part II, how do the objects in Section 3 of The Development Corporation Act relate to the operations of the corporation under its Part II requirements?

**Mr. Ernst:** Perhaps we can ask Mr. Chiswell to do a little research here and see—is there a specific thing—

\* (1015)

**Mr. Minenko:** Mr. Chairman, the question is how do the objects of Part I relate to the operations of the corporation under its Part II? Are they mutually exclusive to Part I or are they used as the parameters for the corporation under Part II?

**Mr. Chiswell:** There are two separate sections and actually under Part I, except for the Flyer divestiture, we have not been acting under Part I since 1977. It is really dormant. We have not made any loans under Part I so really we are operating under Part II which has different powers. Under Part II, for example, we are not allowed to make loans; under Part I, we are

allowed to make loans. So they do operate independently of one another.

**Mr. Minenko:** Mr. Chairman, so the objects under Part III are not used when making decisions under Section 40 of The Development Corporation Act.

**Mr. Chiswell:** That is correct.

**Mr. Minenko:** What tests does the corporation use, or did use, in the fiscal year which we are considering to determine which industrial enterprises are feasible?

**Mr. Ernst:** Well, first of all, let me see, no loans have been made under Part I since 1977 so any of those that are on the books were there before that time and are continuing for one reason or another. Under Part II, by and large, they are loans made by my department, not Manitoba Development Corporation. They were made under the Business Development and Tourism Department of the day or the Industry, Trade and Technology Department of the day. So if you want to refer to some of those particular—or, sorry, under the Jobs Fund as well of the day. So those were done by Government, and Manitoba Development Corporation, by and large, acts as an agent on behalf of the Government, shall we say, to physically carry out the loan process.

In other words, in the case of Carnation Foods Ltd., on page 15, that loan was negotiated by the Department of Industry, Trade and Technology and the terms of which were approved by Cabinet. Then, once approved, the technical requirements of the loan are turned over to the Manitoba Development Corporation and they prepare the necessary instruments for security, advance the funds, check on ensuring that the development is taking place and that all of the terms of the agreement are being lived up to and collect the money over time.

**Mr. Minenko:** So, since 1977, all that the corporation has done is acted as a collection agency.

**Mr. Ernst:** Yes, Mr. Chairman, by and large. That is not entirely true because of course the Part I sections have been ongoing for some time and there are requirements to deal with those as well and including the Flyer divestiture and the handling of Saunders Aircraft and what is left of CFI and a few others that have been around for a while.

**Mr. Minenko:** What is then the corporation doing with respect to the Part I matters that it has under its jurisdiction? What are the specifics that they are looking for? They are simply not accepting the cash. Are there certain elements to the agreements which they are enforcing and so on? Could the Minister or the staff deal with that aspect?

**Mr. Ernst:** Mr. Chairman, they are winding down the operations and dealing with the tidy up and the divestiture of Flyer Industries. Under the divestiture of Flyer, there were certain responsibilities left with the Manitoba Development Corporation to carry out warranty work, certain guarantees and things of that

nature. They were all part of the divestiture agreement. They have to administer and carry out those activities as well.

But I can ask Mr. Chiswell maybe to comment on one or two of the other areas which might, you know, give some additional knowledge to the Members of the committee. So if you like to comment, Mr. Chiswell, on the basis of, say, under Part I, page 12, William Clare Ltd., where are we with that, Mr. Chairman?

\* (1020)

**Mr. Chiswell:** The William Clare matter is now being resolved as well. That is bankrupt; we have been given a discharge. I think what you may be referring to are the old Part I loans. We are continually monitoring those loans to ensure that our security is adequate, to ensure that payments are made on time. Most of them are quite mature at this point so they do not require a great deal of work. We have had difficulty with one loan where we have had to repossess the asset.

**Mr. Minenko:** What loan was that?

**Mr. Chiswell:** Valley Motor Lodge in Minnedosa.

**Mr. Minenko:** How is the monitoring continuing?

**Mr. Chiswell:** We review the loans every month to ensure that the payments are on time and up to date. If we find that a loan is getting behind, our consultant calls, but this really has not happened except in this one case.

**Mr. Minenko:** So there is no monitoring of the actual corporations, simply whether they are making the payments on time.

**Mr. Chiswell:** No, we do obtain financial statements in most cases.

**Mr. Minenko:** Have any of the financial statements presented to the corporation indicated any concern on behalf of the corporation with respect to the operations of those companies under Part I?

**Mr. Chiswell:** Not that I am aware, except for the Valley Motor Lodge.

**Mr. Chairman:** Any more questions, Mr. Minenko?

**Mr. Minenko:** Perhaps my colleagues, who are sitting to my right, have some.

**Mr. Jerry Storie (Flin Flon):** I had a couple of questions, Mr. Chairperson. One of them was on the Minister's opening remarks. He commented that they had anticipated the CFI, some of the outstanding issues on the CFI question to be resolved and there was some problem. I wonder if he could elaborate. What is the outstanding issue or issues? When can we expect them to be resolved? What does it mean for MDC or the province?

**Mr. Ernst:** Perhaps I can defer to Mr. Chiswell for the specifics of that matter for the Member.

**Mr. Chiswell:** There is a question of ownership of a piece of land in The Pas that is still outstanding and that is the last issue. We thought it would be all wound up, but unfortunately our lawyers are having difficulty with the old Kasser regime, determining who owns this piece of land. There is not a lot of money involved so we expect that, hopefully, by the time we report to you on the '88 report that issue will be resolved. We are expecting it momentarily.

**Mr. Storie:** So there was no problem with the out-of-court settlement and the payments that came were announced several years ago. That has all been taken care of, the outstanding issue was a piece of land?

**Mr. Chiswell:** There was one issue where the consultants were suing the accountants. Our lawyers assure us that they believe that issue is now resolved, but until we get the final certificate I will not believe it.

**Mr. Storie:** Just a further question on page 15, the Report of Assistance Granted or to be Granted. New Flyer Industries has had a five-year guarantee. It is stated to be \$8 million. I gather that is as of March 31, 1987. What is that today? Have there been any problems with that? We are not experiencing any draw-down on that. What are the circumstances?

\* (1025)

**Mr. Ernst:** While we are dealing with the March 31, 1987, report, I am a little reluctant to get into current operations of the corporation but perhaps Mr. Chiswell can comment on the experience related to the potential for the guarantee to be drawn down.

**Mr. Chiswell:** That guarantee, as you will see in the notes, is reducing, and by \$1 million per year until 1991. It was reduced normally, as it should have been, and we have not experienced any problems.

**Mr. Storie:** There is a list of businesses that received funds from the Jobs Fund and they are outlined. I am wondering whether there are any problems with any of these. Some of them were forgivable, some of them were repayable under certain terms and conditions in the agreements. I am wondering whether any of them are in arrears. Are there any problems that this committee should be aware of with respect to any of those companies?

**Mr. Ernst:** I am advised that there are no problems with any of these accounts. They are all up to date.

**Mr. Storie:** The report only lists two businesses that had used the Manufacturing Adaptation Program. The Minister has indicated that he is reluctant to talk about the current year. We are almost into the next year, the current year being 1989. I am wondering whether the Minister can give us some indication of what other businesses have applied or been approved under the Manufacturing Adaptation Program, or does that program still exist?

**Mr. Ernst:** The program exists. It exists in the Department of Industry, Trade and Tourism, and those

questions and responses were available under the Estimates process at which we spent 22 1/2 hours in the House during the last Session of the Legislature. But the program is continuing and there are other loans. It just started, I gather, about the time—probably early 1987—so that, yes, it was a little slow getting off the ground. But no, it is continuing.

**Mr. Storie:** The Minister indicated that these questions were asked in the Estimates. Of course, I was not. I am not the critic for Industry, Trade and Tourism.

**Mr. Ernst:** Could have been asked.

**Mr. Storie:** Yes, I appreciate they could have. I guess, given that MDC will also be responsible for administering those loans, I am asking whether we could now have them, a list of companies through the 1988 year, or an acceptable time, you know, December 31, 1988. Could we have a list of companies that have subsequently utilized the program?

**Mr. Ernst:** Certainly the information is available. They will appear, of course, in the 1988 report. We do not have that information here with us at the moment so I cannot provide it to you at the present time.

**Mr. Storie:** Mr. Chairperson, could I ask the Minister to undertake to provide me that by letter at some other point?

**Mr. Ernst:** Yes.

**Mr. Storie:** I just had a couple of other questions on this page and that had to do with the Canada-Manitoba Tourism Development Agreement, similar circumstances. I certainly was aware of the two projects that are listed on page 15. I had also assumed that there would have been others. Is MDC continuing to administer those loans under the Tourism Development Agreement? Have there been additional loans granted under the program? Could we also have a list of those?

**Mr. Ernst:** Yes, yes, and yes.

**Mr. Storie:** Thank you, thank you, thank you.

**Mr. Kozak:** To refer back to A. E. McKenzie Co. Ltd. and the province's holding of 12,154,000 preferred shares, I wonder if Mr. Chiswell could inform the committee whether there have been repeated and continuing defaults on dividend payments due on those preferred shares.

\* (1030)

**Mr. Chiswell:** I cannot answer that question but I will certainly obtain that information for you.

**Mr. Kozak:** Thank you very much. I wonder if perhaps Mr. Chiswell could indicate what the dividend rate would be on the preferred shares prior to the write-down that has taken place in the year under consideration.

**Mr. Chiswell:** Again, I will obtain that information for you.

**Mr. Kozak:** Thank you very much, Mr. Chiswell. As I am sure you can appreciate, the entire justification for the write-down does rest on the corporation's inability to honour its dividend payments and we await that information with anticipation.

**Mr. Chiswell:** We will gladly provide that to you.

**Mr. Chairman:** Any more questions?

**Mr. Minenko:** Mr. Chairman, in the report which we are considering today, the Provincial Auditor identified that the corporation does not recover administrative costs for its participation in the Jobs Fund Development Agreement Program. That is cited on page 9. I was wondering if the Minister or his staff could address this as to why that was not being done and are there reasons for it. At what level was the decision made not to correct that?

**Mr. Ernst:** First just let me say, and as I indicated in my opening remarks, it is presently being done. As to the historical relationship as to why it was not done or who made the decision, I will refer to Mr. Chiswell to give you some of that background.

**Mr. Chiswell:** There was some question by the Government of the Day about whether and how much we should be charging. The initial Order-in-Council had indicated that there would not be a charge for the Jobs Fund. The Auditor felt that under our Act we had to make a charge. The Government of the Day was reviewing that issue and subsequently the matter was resolved.

**Mr. Minenko:** The monitoring of programs, would you say that the corporation is doing less work or is less actively involved in matters of industrial development in the Province of Manitoba today, as compared to the report that we are studying and before?

**Mr. Ernst:** Yes, the corporation itself is not presently today active in terms of seeking out new economic development and so on. That is the function of the Department of Industry, Trade and Tourism.

**Mr. Minenko:** Does the department or any other department of Government have the capabilities of performing the jobs as now being completed by the corporation?

**Mr. Ernst:** None of them at the present time are structured to accommodate the operations of MDC, nor are they budgeting, nor have the mechanisms in place to do that, not to say that it could not be done because it could.

In the ongoing review of CEDF and MDC who have a common staff—in other words, Mr. Chiswell presently here today as the acting general manager of the Manitoba Development Corporation is also the acting general manager of the Communities Economic Development Fund. In fact the staff are common to both operations. Communities Economic Development Fund are, in fact, making loans on their own behalf

and are functioning not specifically but in general terms like MDC would have functioned under Part I of its operations. So that it was a vehicle at the time that was available to handle these kinds of administrative duties on behalf of the department, the department not being set up to handle it directly.

**Mr. Minenko:** So does the Department of Industry, Trade and Tourism now make any loans or assistance as provided?

**Mr. Ernst:** Yes, by all means we do. As a matter of fact, under the Tourism Agreement and under the Manufacturing Adaptation Program that Mr. Storie referred to a couple of minutes ago, as well as under the Manitoba Industrial Opportunities Program, the Government is in fact advancing monies under those programs for which they are budgeted in the normal process and which are included in the line Estimates of the department.

**Mr. Minenko:** But the department does not have the capability of monitoring these loans and investments the Department of Industry, Trade and Tourism is making. Would that be correct?

**Mr. Ernst:** In terms of the specific collection data and the physical day-to-day monitoring of those kinds of loans, that is carried out by the Manitoba Development Corporation on behalf of the department. In general terms, in the well-being of the business, the kind of operations that it has and so on, my department officials are regularly in contact with those businesses.

**Mr. Kozak:** Mr. Chairman, I have one final question. It is, in fact, a fairly small question. The annual report under consideration does note that the corporation has seven directors currently serving on its board. The financial statements of the corporation before us depart slightly from typical practice by not specifying the remuneration of members of the Board of Directors as such. Perhaps Mr. Chiswell would have a total figure for remuneration of members of the Board of Directors of Manitoba Development Corporation.

**Mr. Ernst:** The members of the Board of Directors have received \$250 a month plus I believe their travelling expense if they are involved in coming in from out of town.

**Mr. Kozak:** Thank you, Mr. Ernst. We are looking then at a total annual payment of approximately \$21,000.00.

**Mr. Ernst:** If that is how it multiplies out, approximately.

**Mr. Minenko:** I again look to page 16 of the financial statement dealing with the employees of the corporation. It mentions here that the employees are not members of the Civil Service. I am just wondering if someone could comment on what the hiring practices are of the corporation, and how do they relate to the Government's hiring practices, if at all?

**Mr. Ernst:** Firstly, it is my understanding that the Communities Economic Development Fund Board side

of the operation is in fact charged with the responsibility of dealing with employees. Employees are hired directly into the corporation by the administration and/or the board.

That question as to how much they are paid and under what job descriptions and so on is one of the concerns of the Auditor with respect to the recent special audit that was done in the department. That is being addressed at the present time by both boards and by the joint management committee of those two boards that have been put into place within the last month.

**Mr. Minenko:** Now if perhaps I can direct the Minister's or whoever's attention to the actual hiring practices. Do they reflect, or do they mirror the Government practices with respect to all the necessary requirements including any affirmative action or otherwise, or do they differ or does the board set that, or does the Government set their hiring practices?

\* (1140)

**Mr. Ernst:** Presumably the board reflects the interest of the Government. I do not first of all think that there has been a lot of hiring and so on going on to start with. There has not been a major changeover in staff at the operation. But presumably, under the previous Government, it reflected the attitude of the Government, although the specifics of that, I am not sure if they are laid down or not. Perhaps, Mr. Chiswell, you can advise if there is an edict of some kind that says this is how you will conduct your—

**Mr. Minenko:** I could perhaps assist. Were there competitions held and things of that nature?

**Mr. Chiswell:** In the 1986-1987 year there were only two employers of MDC that were hired, myself and a secretary. There was no competition. Mr. Jones interviewed several people for both positions, to my understanding. We generally try and follow the rules of the Civil Service. We, for example, have pay equity and we have installed pay equity. So we generally try and follow those plus guidelines, although not specific categories.

**Mr. Chairman:** Any more questions, Mr. Minenko? No more questions? Shall the 1986-1987 Annual Report of the Manitoba Development Corporation pass? Mr. Storie.

**Mr. Storie:** Just before we do that I would just like some clarification on the role of MDC in any negotiations that are currently ongoing with respect to Manfor and any other agency of Government that has or has loans administered through MDC. Does anyone on the board or in the corporation have anything to do with negotiations to privatize, divest any assets of the province?

**Mr. Ernst:** No.

**Mr. Minenko:** With respect to page 18 of the financial statement dealing with performance bonds to New Flyer



Industries, how does MDC work the guarantee for the performance bonds?

**Mr. Chiswell:** Under the sale agreement we are obliged to provide guarantees, both MDC and the Province of Manitoba. We ask for certain financial information, and being a private company they are very concerned about the proliferation of information. So we asked for and we have reviewed certain information to indicate that our bonding is justified.

**Mr. Minenko:** So how does the Government then insure for the provision of up to thirty million dollars? Is there a special allocation or—

**Mr. Ernst:** With regard to the specifics of how the Government handles it, I do not have an answer specifically but maybe Mr. Chiswell can comment.

**Mr. Chiswell:** It comes out of the MDC Loan Act authority.

**Mr. Chairman:** Any more questions? Mr. Minenko.

**Mr. Minenko:** With respect to the litigation as noted in that same section, what is the present status of the claims? I presume these are claims made against the Flyer Industries Ltd. before the sale.

**Mr. Chiswell:** There are numerous small claims. There is nothing of a major nature that we can comment on at this point. We have used solicitors in the United States and Canada to—and generally they have been successful. There is nothing of a major nature that I am aware of, of a claim against Flyer or MDC that is outstanding at this point.

**Mr. Minenko:** What are the values of some of these claims? You mention they are not very large but—not very large, one hundred thousand or not very large, one million?

**Mr. Chiswell:** Being an accountant, I consider anything over \$10 to be large. We certainly do not have anything in the \$100,000 that are requiring settlement. There have been settlements for \$20,000 in the past, and I am aware of one. There was one for \$30,000 that was settled. We are being sued by Alaska as part of an overall suit, which they are talking about a million dollars. Our lawyers have assured us that they do not have any right to sue us. It is like trying to answer about a moving target. We still feel fairly confident that there is nothing out there that would be over \$10,000 at this point.

**Mr. Minenko:** These suits are relating to what aspect of the operations of the old Flyer Company?

**Mr. Chiswell:** They vary, everything from accusing us of having PCB's in a generator to not fixing the seats in the bus correctly.

**Mr. Minenko:** The Alaska suit, they are alleging \$1 million.

**Mr. Chiswell:** Seats, driver's seat.

**Mr. Minenko:** You mentioned your lawyers. Are those Crown Attorneys or do you hire private firms and—

**Mr. Chiswell:** For many years, the attorney for the Manitoba Development Corporation was Mr. Allan MacDonald. We have recently changed to Mr. Ken Galanchuk.

We feel that these issues are of a nature that we should be using outside legal firms. In fact, Mr. MacDonald in many cases has simply acted as an advisor to the U.S. firms. We have a major firm in Washington, we of course have another firm that is going to be appointed in Alaska. We have to appoint firms in the area where we are defending.

**Mr. Chairman:** Any more questions?

**Mr. Storie:** Yes, Mr. Chairperson, I guess this is for the Minister. It becomes a policy question.

If the current board of MDC is not involved in negotiations, MDC for some years now has not been administering new loans. It seems to me quite obvious that there are no substantive policy issues that the board has to deal with.

I am wondering whether the Minister has given consideration to winding down the current board, establishing a Civil Service board similar to what operates in the Manitoba Housing and Renewal Corporation which is essentially a shell for administering loans which could be administered by current staff in a line department.

It seems to me and we now learn that the legal staff, legal advisor, for the corporation has been changed to a Tory. It seems to me the Minister is using this as some kind of pork barrel, minor in many respects, but a pork barrel nonetheless when the interests of saving money seem to have gone by the wayside.

If the Minister is not going to use the Manitoba Development Corporation as an economic tool to develop policy, expand the horizons of the department, the Minister, whatever, why are we not looking at winding it down?

**Mr. Ernst:** Well, firstly let me say that the question of the appointment of the solicitor is done by the Board of Directors, not by the Minister.

Let me also advise you that Mr. Allan MacDonald, the long-time solicitor, was the NDP candidate in St. James in the last provincial election. So, Mr. Storie, I do not think you need to talk about pork barrels at all, at least not from the outside.

Notwithstanding that, the question that you originally raised, the question of what to do with the Manitoba Development Corporation is a very good question and one we are addressing in the context both of the special audit that was completed and in terms of our own operations from within the Department of Industry, Trade and Tourism. Those issues have come to light over the past several months that we have been in office and

we are in fact addressing them as to how best to handle it.

We have a very strong Board of Directors. Mr. Taillieu is a very experienced businessman and feels some frustration, I believe, along with other members of the Board of Directors in that they really do not have a significant function in the present context of MDC. The decisions with regard to the loans are made by Government. They are really acting as a collection agency and, as you indicate, Mr. Storie, there are not major policy issues for them to deal with.

I have met with them to discuss the question of how best to deal with it and how best to deal with their operation in context of the CEDF Board. We are addressing those issues and hope to have a resolution of those in the not too distant future.

\* (1050)

**Mr. Storie:** I hope the Minister does not, in reviewing this, confuse the two issues because CEDF and their operations are substantially different and need to be from MDC and the board. In the Minister's comments he talked about the previous legal counsel being a New Democrat and I was not suggesting for a minute that that was otherwise. This Minister and this Government said that things were going to be different.

We have appointments now to act on behalf of the corporation and to the Board of Directors. I cannot go farther because I do not know that there have been any other changes which have been of a very political nature, which have been done, for all intents and purposes, political reasons. I suppose I could even understand that if Manitoba Development Corporation was going to do anything.

From all we have seen from this Minister and this Government in terms of formulating economic policy and putting in place vehicles that can manage or facilitate economic development, it has not happened. And I do not think it is going to happen with MDC.

So it was perhaps a foolish waste of patronage points to appoint people to a board that is not doing anything and is quite obvious to everyone that it is not doing anything. So I am asking the Minister if he is not going to use MDC in some sort of constructive way to consider saving the taxpayers' money, reappointing his Tory friends to some other board where they are actually going to do something in the interests of saving money and saving everybody time and good will. Put them on the Venture Manitoba board.

**Mr. Ernst:** I am sorely tempted—

**Mr. Storie:** Go ahead.

**Mr. Ernst:** —Mr. Chairman, to respond in kind to Mr. Storie's comments. However, I am going to restrain myself and say only this, that the problems have been recognized since we came into office. The fact of the matter is the previous board did not act with regard to certain significant problems that were inherent in

the Manitoba Development Corporation Report, and a new board was appointed once those problems were recognized because the previous board did not act on them. To that matter we appointed the best possible people we could find to deal with those issues because we do not take lightly the matters of the public purse. We do not take lightly the question of how significant problems need to be addressed.

Once in place and once the board has had an opportunity to review its operations and so on, the board came to me and said, look, we do not feel that there is a major function here and that we ought to be doing something about it. In discussions with the board, we are in fact doing that. We waited for the special audit to be completed before carrying on that activity.

**Mr. Chairman:** Any more questions to the committee, or to the Chairman? Mr. Minenko.

**Mr. Minenko:** Section 45 of the Act sets out that loans to Members of the Legislature are prohibited. Has the corporation complied with this section of the Act since it began?

**Mr. Ernst:** I defer to Mr. Chiswell.

**Mr. Chiswell:** I have only been an employee of the corporation for two years and during that term certainly they have complied.

**Mr. Minenko:** What is the means by which the corporation has complied with this section? How does the corporation review any matters in order to comply with that section?

**Mr. Ernst:** Well, firstly, how do they comply? They comply by not giving loans to Members of the Legislature, that is how they comply. But in how they deal with that, first of all, the Manitoba Development Corporation does not make loans under Part I of its Act, so it cannot make a direct loan. Since 1977 it cannot make a direct loan.

**Mr. Minenko:** What was the measure they used to ensure that this section was complied with before '77, if anyone is aware of that?

**Mr. Ernst:** As far as I am aware, I do not know that anyone here was around prior to that period of time. So I would assume that boards of directors of past days and administrations thereof were familiar with their legislation and would carry out the requirements of their legislation, but I am not aware and I do not think there is anybody here that has been around long enough to remember.

**Mr. Chairman:** Any more questions? If not, I will ask once again, shall the 1986-87 Annual Report of the Manitoba Development Corporation pass? All in favour? Opposed? Pass.

Committee rise.

COMMITTEE ROSE AT: 10:55 a.m.