Legislative Assembly of Manitoba

HEARINGS OF THE STANDING COMMITTEE

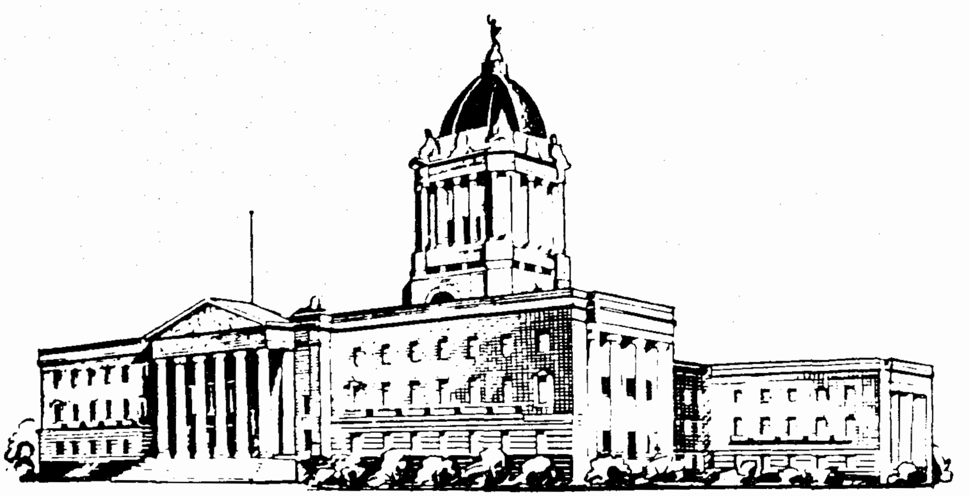
ON

ECONOMIC DEVELOPMENT

Chairman

Harry Shafransky, M.L.A.

Constituency of Radisson



10:00 a.m., Thursday, April 4th, 1974.

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ECONOMIC DEVELOPMENT COMMITTEE
10:00 a.m. Thursday, April 4, 1974

Chairman: Mr. Shafransky.

MR. CHAIRMAN: The Committee will come to order. We have a quorum. We can proceed with the report from the Chairman of the Manitoba Development Corporation. Mr. McGill.

MR. McGILL: Mr. Chairman, on a point of order, the committee, I believe, is about 12 minutes late now. Can we extend the hour of adjournment by 12 minutes - if necessary, if we don't get through all of these reports. Now, we've been here ready to go since 10 o'clock and I would think that. . .

MR. CHAIRMAN: Well, that is very nice, very good, Mr. McGill, that you brought it to our attention that we are 12 minutes late. It has been the case in the past that the committee had to wait, the fact that you are waiting here this morning. We had other occasions to wait for other circumstances. However, we can proceed, and I'm sure that the committee would agree that we can extend that particular time.

MR. McGILL: If we need the time, yes.

MR. CHAIRMAN: If we need the time.

MR. EVANS: Mr. Chairman, just on a point of order. I have a problem and some others may have problems because of other commitments. The only problem, I was wondering whether there was really a problem because the committee can meet, you know, next week and next week and the following week. In other words, I don't know whether this is the last meeting whatsoever. There may be several other meetings. So, you know, it's not a matter of--I don't think it's a matter of limiting debate because you've got 12 minutes cut off the 2-1/2 hours.

MR. McGILL: Well, Mr. Chairman, on the same point. I appreciatethat the Minister has his commitments, but I do feel that we need the two hours and a half, and if we're late in starting and we've not completed our discussion of reports, that the committee should be prepared to extend the adjournment date for the 10 or 15 minutes that we're late starting.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, on a point of order, I appreciate that sometimes committees are late in starting, sometimes because government members have not arriven, sometimes because opposition members have not arriven.

MR. CHAIRMAN: Right.

MR. GREEN: That doesn't change the rules of the House. I can recall the House not being able to meet for three quarters of an hour or an hour because opposition members refused to answer the bells, which is less of a reason than a Minister being called aside by the media and has to make a statement. So sometimes a meeting is not able to start on time, Mr. Chairman. They're having meetings that have not been able to start for want of a quorum. That doesn't change the rules of Committee.

MR. McGILL: Mr. Chairman, on the same point, we don't intend to extend this debate because we're wasting further valuable time. I can see that the committee is not prepared to extend the adjournment. . .

MR. CHAIRMAN: Well, Mr. McGill, in the Standing and Special Committees there is nothing in the rules which actually states the closing time of the committee. We do finish sometimes early. Now, if it was a specified time. . . just by agreement that we agreed to rise at 12:30. But we have on occasion concluded the business of the committee before the time and the committee rose before 12:30. So that if there was that specific rule, we would have had to continue, based on some rules. But there is no set hour. It is just by practice and without having a specified time of adjournment, and it is only the committee, at that particular time, can ask that we proceed. If it looks like we're going to conclude the report, it is possible that the members of the committee would wish to extend the time, and if it appears that we're not going to be concluding, there would be no purpose in extending it by 10, 15 minutes under those circumstances. Mr. Green.

MR. GREEN: Well, Mr. Chairman, just maybe to try to get a friendlier atmosphere to start with, I have no intention that the committee will not meet again. I would hope, and I see the session as lasting some time, that we will meet often enough to consider the entire report.

MR. CHAIRMAN: Let's proceed. Mr. Green.

MR. GREEN: Mr. Chairman, on the proceedings, last time the Chairman of the Corporation sort of finished his initial report and then got questions on specific equity loans.

(MR. GREEN cont'd). . . I wonder if we can agree that the chairman would introduce the specific equity loans and make his remarks on them so that the questions on those loans could also follow. Otherwise all of those things are going to come by way of question rather than report from the chairman. The chairman would like now to report on the equity loans and then receive questions from committee on the report that he has made, so that. . .

MR. CHAIRMAN: Is that agreed?

MR. GREEN: He thought that there would be general questions on the report but he would like to report on the equity loans as well.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, I wonder if I might suggest that possibly there were many questions raised last meeting, in particular in regard to W. E. Clare, and the Chairman of MDC indicated he would get answers to these questions. I wonder if we could maybe review those answers first, prior to going into the next phase of the report.

MR. CHAIRMAN: Well, that I believe was the understanding at the last committee meeting that there would be the answers given plus the other information that was requested, and that we proceed with the report of that and then we can go back to more questions. Okay? Mr. Parsons.

MR. PARSONS: Mr. Chairman, members, to start today's session, I'm going to coverall the questions that I took as notice from the last meeting, then I would like to proceed through all our reports as they were tabled, so we can take one company at a time and I think it will be beneficial to everybody if we can take them in order, and then we can deal with them as we go through. So, gentlemen, there were questions--I'll give you the questions just to review it and give you the answer for the record.

Mr. Asper asked in what period - and this is regarding William Clare (Manitoba) Limited - in what period were the existing advances made to William Clare? The disbursements were made by MDC to the company in accordance with requests made by the company which were checked out by MDC staff prior to the funds being released. Advances were only made against prior commitments. In this case, the commitments from the MDC firstly were $100, 000, and a $600, 000, and a $650, 000. The advances made to date against each of these commitments as follows:

The $100, 000 was given to him in 1971. In the second quarter of that year there was $27, 000 disbursed. The third quarter, $20, 000 disbursed. The fourth quarter, $10, 000 disbursed; and the first quarter of 1972 finished that program with $43, 000, to a total amount of $100, 000.

The second, $600, 000, was granted to him in 1972. The second quarter there was $75, 000 used; the third quarter, $155, 000; fourth quarter $130, 000; first quarter of 1973 $70, 000; second quarter of 1973, $120, 000; and the third quarter $50, 000 for a total of $600, 000.

There was a further additional $650, 000 loan granted in 1973. In the fourth quarter there was $211, 500 used. In the first quarter of 1974 there's $128, 500; for a total amount of $340, 000 of that new advance. There is a total disbursed to date of $1, 040, 000. The balance is still to be disbursed and will be, upon vouchers from the company. I think the question they were really after was whether we just gave them a straight cheque at the time we gave them out. We do not.

Mr. Minaker asked a question, when the remaining of the $1, 350, 000 loan commitment be loaned out. Again, in keeping with our policy, disbursements are only made against this commitment as funds are requested by the company, only after these requests are reviewed by the MDC staff. The company has projected that the balance of this commitment will be required in various dates and amounts ending on or about September of 1975.

Mr. Minaker, again, asked why Mr. Clare indicated there were 55 modules and my report indicated there were 48 modules in the program. The contractual agreement between the company MDC and Rand McNally is for the 48 modules. That is what I was referring to. However, the program was designed to be at least 55 modules, and many of these extra modules have been written at no cost to the company and Rand McNally may very well use these. This is what Mr. Clare was referring to. They are going to use more than the 48 original contracted for, and they will do this all at their own expense.

Mr. Minaker again asked what portion of the company's 1973 Manitoba purchases, totalling $91, 000, was related to "Indians Without Tepees" program. The cost of the "Indians Without Tepees" program was approximately $11,000.

(MR. PARSONS cont'd). . .

Mr. Minaker again, how many modules have been done to date? The arrangement between the company and Rand McNally is that the modules are submitted to Rand McNally for their comments and approvals at various stages of production. There are four distinct stages of completion that each module must pass through, and the various completion stages of each module are set out as follows: The first stage that the module goes through is a first rewrite. Each module reaching this stage of completion has been written by the editors, has been typed into manuscript form has been edited and rewritten for the first time. There are four modules in that stage right now.

The second stage, which is the final manuscript stage, at this stage each module has been re-edited in a manner allowing it to go to print in a form that will be satisfactory for testing by teachers and students, and there's eleven modules in that stage.

The third stage is the pilot edition and testing. Each of these modules, once they have been printed, are distributed for testing under classroom conditions. In addition, each printed module has been forwarded to Rand McNally for their comments. There are twenty-three modules up to that stage.

The fourth stage is the final proofing of modules. All modules reaching this stage have once again been re-edited. All corrections are made, type has been set, art work completed, and proofs are all approved by Rand McNally. There's twelve modules completed in that stage. I think that adds up to 50 modules. They are very well on with the program. As you can see, there's only four left in the first stage.

Mr. Minaker asked if the art work for the modules was done in Toronto. The company approached various book design firms throughout Canada, and Rand McNally requested that they approve of the selection of the firm to do the art work for the modules, and a firm was approved, was located in Toronto, Ontario. That's correct.

Mr. Minaker asked, what type of expenses does Rand McNally incur? Rand McNally's obligation under the terms of their agreement, is that they will pay for all selling expenses, sales promotion expenses, advertising expenses, printing and production expenses, inventory of printed modules, warehousing and general administration expenses in connection with the program. In terms of the volume of production of completed modules that Rand McNally is committed to, they have informed us that it is not economical for them to print modules in volumes of less than 40, 000 copies per module. Therefore, the expenses they incur as completed modules are delivered to them in sequential completion dates, build up substantially and expect to far exceed the William Clare development costs prior to completion by Clare of all his developmental workings.

Mr. Minaker again, asked the amounts of authors' expenses which were reimbursed to the authors of the company. The company's policy is to reimburse its authors for travel and accommodation expenses incurred, whether it is in the best interest of the company to call meetings of authors in locations away from their residence. The total expenses for this amounted to approximately $3, 600 in 1972, and $5, 500 in 1973. Basically, Mr. Clare goes to the author rather than the authors coming to him.

Mr. Patrick asked what part of the salaries and wages paid by the corporation in 1973 totalling $150, 000 were paid in Manitoba? The answer is $23, 000.

Mr. Craik asked what Mr. Clare's credentials were and what his track record in business had been. Just a brief summary: Mr. Clare was born in Winnipeg in 1932, and he served as an officer in the RCAF from 1953 to 1960. From 1960 to 1969, Mr. Clare was employed in senior management positions with Holt, Reinhardt & Winston of Canada. They are educational book publishers. During that time he served as director and president of the Canadian Textbook Publishers Institute. He then moved on as manager of the Instructional Materials Division of the Encyclopedia Britannica Publications Limited in Canada. So he had a good, sound background in the educational publishing field.

Mr. Minaker: Why haven't you asked the editor to locate in Winnipeg, and why are he and Mr. Clare separated? Well, the company's full-time editor resides in Toronto mainly to be in close proximity to the art work and design people, as there is a constant need to reorganize, organize and expedite art work on modules in process. Mr. Clare, on the other hand, resides on the west coast and is in close proximity to the majority of the authors. I believe that covers all the questions on William Clare.

MR. MINAKER: I was wondering, Mr. Chairman. . .

MR. CHAIRMAN: Yes. Mr. Minaker.

MR. MINAKER: There was one question I asked that, what had been discussed with William E. Clare board of directors with regards to the interim period between the time that we're waiting for the royalties to recur and the time of the next project, how and what would the company do. Would it be dormant or would it require additional funds for future projects? At that time, Mr. Parsons indicated there'd been no discussion to this effect. I was wondering if there has been any discussions to date on that subject?

MR. PARSONS: No, there's been no projection beyond where we are now. And there is at this point no project that they're even looking at to go into with him.

MR. MINAKER: Mr. Chairman, the other question is: It's my understanding in talking with people involved in the publishing company, that the art work is primarily located where the editor is, and the answer that we received from Mr. Parsons is that the reason the editor is located where he is, is because that's where they're doing the art work, and I'm wondering is it not--or wouldn't it make sense that if we have people in Manitoba capable of doing this work - and I understand we do have - doing the art work, that you would move the editor to where the art work would be done, so that we could keep them. . .

MR. PARSONS: That could be reviewing the art work; as I said, it went out for competition. It was all reviewed right across the country by Clare and Rand McNally, and the company that was chosen was in Toronto.

I think I've covered all the questions on William Clare. With the committee's permission I'd like to move on. There was the question that Mr. Minaker asked on the theatre. He requested--would like to find out the exact date of the $100, 000 loan to Omnitheatre - The answer: The $100, 000 was approved by the MDC board on May 16th, 1972. He then asked when Omnitheatre went into bankruptcy or receivership? Actually, Omnitheatre did not go into bankruptcy or receivership. A trustee was appointed September 15th, 1972, under the terms of the Bankruptcy Act, to negotiate a settlement with trade collectors under the supervision of the court. This was done, all claims have been settled, and it is now being finalized.

MR. MINAKER: Mr. Chairman, do you not still have an outstanding claim from two former employees?

MR. PARSONS: Not to my knowledge. The receiver informs us that he has settled all claims satisfactorily.

Gentlemen, those were the questions that arose at the last meeting that I took as notice. I've now answered them and I would like to proceed now to the statements that were issued to you last time and we can discuss the companies. . .

MR. McGILL: Mr. Chairman.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Parsons is considering that those were all the questions. I did ask a question of him and he agreed to get me the answer on the rate of interest that was charged on the lease-purchase agreement at P. E. Pioneer plant in Brandon.

MR. PARSONS: Yes, the effective rate of interest, actually it's on a 20-year lease with an option to purchase at the end. The effective rate of interest is 9-1/2 percent if the option's taken up. I'm sorry, you're correct. I did have that.

MR. McGILL: Thank you.

MR. CHAIRMAN: Now, is it the will that we proceed with the actual report or do you have still some more material on the statements?

MR. PARSONS: I'm going to go through--I gave out statements last meeting. There were eleven statements. Pardon me, we have another package of statements here if there's any member of the committee that doesn't have one. Mr. Kuhnle?

MR. KUHNLE: We have some errors. . .

MR. PARSONS: Yes, we have.

MR. PARSONS: All right. We have four full sets extra. The first company that we're reviewing is Alphametrics Limited. We have presented you with the statement of 30th September, 1973. Our investment in this company as shown you on a fly-sheet that we also gave you, which summarizes the company position, we have $100, 000 invested in this company. There has also been a $50, 000 loan authorized to this company which has not been drawn down up-to-date. As you see by the chart, there's other investors that have $100, 000 in this company as well.

(MR. PARSONS cont'd)...

There's a group of three individuals that developed a number of preliminary designs for further electric devices that lacked capital to complete the designs and put them into production. The MDC, in cooperation with the principals and a private investor, provided $200,000 in equity capital. Additionally, the MDC have approved a $50,000 loan to this company, which, as I said, has not yet been disbursed. The company started the operations in January of 1973. For the first fiscal period, ended 30th September, they would have a loss of $42,000 -- pardon me, a revenue of $42,000, and a net loss of $73,800.

This you must remember, is a start-up of a development and a pre-production period in the company. The budgeted figures of $51,000 in revenues and estimated loss budget of $67,000, indicate to us -- and we watched this company and worked with them fairly closely-- that the company's performance is not unsatisfactory for its initial period. They have developed two products, a radiometer and an ultra-violet cameras, or they have got them ready for commercial production, and they are moving forward with it. The efforts at this particular time are now being concentrated on receiving sales from agencies and products established in 1973. Generally, the development impact, the company is currently employing eight people, an annual payroll of $68,500, and they're pretty well all technical types involved in this. And the sales, as we note at the bottom here, are Canada, U. S. and Japan.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Yes, I wonder if Mr. Parsons could indicate the names of the boards of directors of these companies. I see the statement doesn't have any indication of that. Could you just read those off?

MR. PARSONS: All right, Mr. McGill, I'll have to take that as notice. We have all these -- we may be able to get them before this meeting is over. I don't have them listed. It's an oversight -- we could have done that quite easily.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, through you to Mr. Parsons. Could Mr. Parsons, could you advise us what the projected sales figures are for this year? I see the year-end is, I presume it's September 30, 1973. What is the projected sales figures for Alphametrics for this coming year that we're into right now? And is there any indication that they're on quota or going to meet its sales. . . ?

MR. PARSONS: Yes. Just a moment, now, I have it on a sheet here. Yes. As a matter of fact, we reviewed the budget and they're coming along well. I'll get you the exact figures if you wish.

MR. MINAKER: Could you do that?

MR. PARSONS: Yes. We have the projected figures in all these companies. I'll have that for you.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, I note that the budget for loss was $67,000, and that the actual was $73,800. Can you tell me, in your experience as an accountant and as a man of business, whether it is unusual to budget for a loss in the commencement of a company's operations for the first year, or the second year?

MR. PARSONS: No, in effect -- well, this is a development project you'd naturally expect to lose money -- pretty well all companies that go into a new operation are going to run into this period for one, two, maybe three years. It's very seldom that a company will start up an operation, especially a development company like this, that would make money in the first year or two of its operation. They would have to have good luck or something to be able to do that. It is possible, but basically, a development company, I would say no.

MR. CHAIRMAN: Order, please. Mr. Minaker.

MR. MINAKER: Staying with that question that Mr. Green raised there, is it not also true in a company that after the third year, if it continues to lose money, that in normal industry practice that it's quickly reviewed, and if it appears this is a never-ending situation that the decision is made to probably terminate the company?

MR. PARSONS: Oh, I'd say if they don't meet their budgets and so on, yes, they certainly have to be reviewed and a new tack taken or something done to change the trend. You don't continue on for many years losing money unless there's other considerations to be taken into account.

MR. CHAIRMAN: Mr. Marion.

MR. MARION: Mr. Chairman, weren't budget figures of revenues and losses estimated on a 12-month operation?

MR. PARSONS: Yes, they normally are, and the results we have before us are based on a 9-months operation. Yes, so your year-end is 30th September and they've only been in operation that length of time. Normally the budget is a 12-months period.

MR. CHAIRMAN: Proceed with the next. . .

MR. PARSONS: If no further questions no . . . move on. I'm sorry.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: A question, Mr. Chairman, to Mr. Parsons. You're going to get the list of the Board of Directors. Perhaps you can just give us offhand the name of the president of Alphametrics. Well, then, maybe the chief administrative officer?

MR. PARSONS: I don't -- no, I can't give it to you. I've met him. I've met the three gentlemen. I can't remember their names. I'm sorry, but we'll get it for you.

MR. CHAIRMAN: Well, that information will be coming forth. . .

MR. PARSONS: The account officer -- we have an account officer who works very closely with them.

Now, William Clare was the next one on the list. We went through it -- we got off the track last meeting and got into it in fairly good detail. I think we've just about . . .

MR. MINAKER: Mr. Chairman, we have the year ending December 31, 1972 report. Is the year ending December 31, 1973, report available yet, or will it be available before the. . . ?

MR. PARSONS: I hope it'll be available the next week or two. We were after the auditors, we were pressing them for all these reports.

MR. MINAKER: I don't know whether I raised this question last meeting or not, Mr. Chairman. I would like to know, are we presently paying for office space in Vancouver as well as office space in Toronto for this company as part of the operating expenses?

MR. PARSONS: No, Mr. Clare works out of his home. There's no charge for office expense.

MR. MINAKER: But in 1973 I understand they did have an office, I believe, or people. .

MR. PARSONS: They had an office here.

MR. MINAKER: But did they not also have either an apartment or an office in Toronto that was being charged for the company?

MR. PARSONS: I don't know.

MR. MINAKER: Well, I wonder if Mr. Parsons could look into that, because I believe they did have an apartment that was being charged, or for a part of the year too, in Toronto.

MR. PARSONS: All right. Fine. I'll check that. That could be. Mr. McDonald says that the auditors -- we'll probably have that within two weeks, so we'll be able to table it at our next session.

The next statement is Leaf Rapids Development Corporation. Their fiscal year end is March and we are tabling the Auditor's Report done by the Provincial Auditor for the year ended the 31st March, 1973. This company is wholly owned by the MDC and it was financed under Part 2 of the Development Corporation Act. The company commenced to build a town in Leaf Rapids in 1971 and the town is pretty well completed now, and it is planned at this point to have the official opening in September of 1974.

MR. MINAKER: If nobody's on the list, I wonder could Mr. Parsons -- could you tell us what the total advance. . .

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: I wonder, Mr. Chairman, if Mr. Parsons could tell the committee what the total loans advanced to date for Leaf Rapids total to.

MR. PARSONS: Up to March '74? Yes, we have that information. Yes, When you take it till February 28th, it's on that fly-sheet at $11.6 million. I don't know what the March. . .

MR. MINAKER: What is the total committed figure that hasn't been advanced, Mr. Chairman? The total committed figure to date that MDC has to Leaf Rapids Corporation?

MR. PARSONS: This is the total commitments that we have, been requested.

MR. MINAKER: All that has been committed to this project has been issued to date? That there has been no further requests for any additional loans?

MR. PARSONS: You mean the total committed, that was committed under Part 2?

MR. MINAKER: What I'm saying is, Mr. Chairman, work has been done at Leaf Rapids. . .

MR. PARSONS: Yes.

MR. MINAKER: . . . I'm sure that there's moneys outstanding on and it still isn't completed, and I would like to know what is the anticipated commitment for completion of this project, that you haven't already committed a certain total . . . figure to it. You have $11 million that has been committed, and I presume given to the corporation. Now what. . .

MR. PARSONS: Yes.

MR. MINAKER: . . . Has there been any requests recently for additional funds?

MR. PARSONS: No. But there could be.

MR. MINAKER: Yes, there could be.

MR. PARSONS: It's requested -- you see, under Part 2 we are financing it. They make their requests and drawdowns as they require them there.

MR. GREEN: Mr. Chairman.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: I think that with respect to Leaf Rapids being done under Part 2, the corporation is really financing a government request. And I'd be prepared in this case, because the MDC doesn't administer the Leaf Rapids Corporation as such, I'd be prepared to have the Chairman of the Leaf Rapids Corporation appear before committee as a separate heading, so that the actual details of what is done in that regard are being given by the Chairman of the Corporation. And I will undertake to do so. . .

MR. MINAKER: I didn't realize this, Mr. Chairman, that's why I was asking.

MR. PARSONS: Yes, there's a separate board and chairman. They just draw down. We are requested for the funds and we also check all the expenditures.

MR. MINAKER: So it's our understanding, then, that the Leaf Rapids Development Corporation chairman will be available to the committee this year.

MR. PARSONS: Right.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Chairman, on that point, are there any other corporations, the operations of which are administered by the government but do not come under, directly under MDC? I'm interested in Mr. Green's point here.

MR. PARSONS: This is the only one that we're operating under Part 2 of the Act.

MR. McGILL: And that is what Mr. Green is referring to now.

MR. PARSONS: We are instructed by the government to fund an agency, or another Crown corporation, under Part 2 of the Corporation Act.

MR. GREEN: Mr. Chairman, so there's no misunderstanding, I also intend to bring Mr. Hallgrimson, the Chairman of the Churchill Forest Complex, to committee, to also make a report, because the MDC really is not involved in the supervision of administration of Churchill Forest Industries. The other one possible that the MDC has put money into, which they don't have an effective administration of, is the seed company, the. . .

MR. PARSONS: The A. E. McKenzie.

MR. GREEN: The A. E. McKenzie, that's right. Which one is not under my administration.

MR. McGILL: But it is, nevertheless, Mr. Chairman, a company within which the Government of Manitoba has effected control and would it not be then proper to have a presentation at this Economic Development Committee of the A. E. McKenzie Company's financial statement?

MR. GREEN: That could be a subject of discussion, but all that I raised the question for is to indicate that for two companies which fall under the responsibility of the Development Corporation under Part 1 or Part 2, I intend to have the two chairmen. With regard to the other one, the Minister who has been in charge of it has indicated the kind of reporting he is doing. If there is to be further discussion on that, I don't think now is the appropriate time. I think that we should hear the reports that are being given.

MR. CHAIRMAN: Right. This is what I was saying, that we were getting away from the report right here. We can discuss that at another time. I think we should proceed with the report from the Chairman of MDC.

MR. McGILL: Mr. Chairman, then, perhaps Mr. Evans will make a statement in respect to his . . .

MR. CHAIRMAN: Mr. McGill, I would suggest that possibly it might be in order for you to raise that up in the House.

MR. McGILL: Okay, fine. Thank you.

MR. CHAIRMAN: Mr. Parsons, proceed, or does that conclude the Leaf Rapids?

MR. PARSONS: Leaf Rapids, yes.

MR. GREEN: We'll have Leaf Rapids back.

MR. CHAIRMAN: So we'll have the Chairman of Leaf Rapids Corporation to report on the operations. Next one is Macey Foods.

MR. PARSONS: Macey Foods Limited from Brandon. This is a company that went through a reorganizational period. As you can see, the original loan at that time was $1.2 million. They're entirely up to date. Their operation is running well. I'll read the fly sheet we have with the report. "MDC Equity Participation. The MDC exercised its option to acquire 51 percent of the shares with a disbursement loan of $250 thousand. Macey has the option till February 1st, '77 to repurchase the MDC investment for the same amount. The amount of the second loan -- pardon me -- plus 50 percent of the increase in share book value from the 1st of September, '74 to the exercising date of the option. The company has shown progress according to sales of over $723,000 for the fiscal period ended 31st January, '73, and there was a small net loss of $11,109.00 suffered. The other audit results for the first eight months of the current year show sales of $616,000, a net profit of just over $50,000. They have turned the operation around now, they're going well, they've developed a good market and they're showing what we think is a good net profit. And as you see there, they have been able to meet all their commitments to us without any problem, and they are expanding their operations out there.

As I mentioned earlier, the company is located in Brandon, employing about 50 people, and most of these people are native people from the Brandon-Griswold surrounding districts. The majority of Macey's production is shipped outside the province, mostly to the United States. Incidentally if I didn't mention what their product was, they're growing and eviscerating and freezing ducks at the rate of about 3,000 per week. The company is progressing well. We feel that they're -- the first three years it was really a development year for them. It is going well. They are having growing problems. The cost of their feed are rising substantially, also the cost of their labour, as most industries they are going through this phase. But they have been able to maintain a fair market price, therefore are showing a profit. Are there any questions on Macey? (No, there is no statement for this one.)

MR. CHAIRMAN: Mr. Marion.

MR. PARSONS: I'd like to answer that. I tabled the financial statement at the last committee meeting in April of 1973. We do not have the 31st January statement of 1974 available at this time. We hope to be able to before the committee adjourns. The auditors' statement is not ready, that's why we gave you this fill-in. The last audited statement which was January, '73, was tabled at the last committee meeting.

MR. CHAIRMAN: Mr. Marion.

MR. MARION: My question would be, are sales anticipated in the budget being met and are costs of operations being met in the current year?

MR. PARSONS: They are running above in. . .

MR. MARION: Sales running above?

MR. PARSONS: Sales running above, the costs are being controlled. As I indicated, in the eight months they showed a $50,000 profit and even the latter period looks a little better than that -- the market.

MR. MARION: So this firm is running ahead of its budget for the current . . . ?

MR. PARSONS: Anticipated, yes. And their profits will be higher than our budget, too. The market came out fairly strong in the last three or four months of 1973 for this type of product in poultry.

MR. CHAIRMAN: Okay, we can go on to Micro-Com Electronics Limited.

MR. PARSONS: There's no further questions on Macey then? Mr. McGill, asked me on Alphametrics' board members. I've been handed that now, if you would like to -- I could enter them into the meeting at this point. There were three active shareholders in the business. There's Robert Tarry, Dennis Johnson and Michael Fain. They're the three originators of the company. They are actively working in the company.

A MEMBER: Johnston?

MR. PARSONS: No, I have it as "son". Fain. F-A-I-N. They are actively the shareholders of the company and actively employed.

MR. CHAIRMAN: Mr. Minaker.

MR. PARSONS: Yes, they are board members --(Interjection)-- Tarry, T-A-R-R-Y.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Yes, Mr. Chairman, I wonder if Mr. Parsons could advise, are they full time employees at that company, are any of them professors at the university?

MR. PARSONS: To the best of my knowledge they are full time. Now if they're lecturing at nights out at the university, it's not to my knowledge. They are classed as full time employees and they are all working there full time. There is one outside investor. As I mentioned his name is John Buchanan. None of the board members are appointed by the MDC, by the way. That is the board. We operate with an investment officer with this account -- not on the board.

MR. CHAIRMAN: Mr. Marion.

MR. MARION: Is it appropriate to ask a question now that we've reopened this thing? I wanted to ask, is Mr. Buchanan. . .

MR. CHAIRMAN: Well you can.

MR. MARION: Are there commitments by this company to Mr. Buchanan, financial commitments to him, with respect to reimbursing the investment that he has in this company?

MR. . . . That's an internal matter.

MR. MARION: Well, we would know this of course?

MR. PARSONS: He invested the money. . .

MR. GREEN: He has share capital.

MR. PARSONS: Yes, he's got $50,000 invested in the company.

MR. MARION: Is it shares or . . . ?

MR. PARSONS: I don't know what the split is because it was half split between loans and shares.

A MEMBER: Shareholders alone?

MR. PARSONS: What we do -- when we lend them the money, they cannot withdraw any of that money until our loans are fully repaid. If this is what you're getting at.

MR. MARION: Well, my question was, it would be interesting to know how the $50,000 was placed, Mr. Chairman, . . .

MR. PARSONS: In cash.

MR. MARION: What part of it was an equity and what part of it was in a loan, and how is the loan to be repaid, sort of thing?

MR. PARSONS: The loan being repaid to him must follow any moneys that we have borrowed in our letter of offer to him. So he can't withdraw any funds -- regardless of what his deal was with the original company, he cannot withdraw funds until our loans are repaid.

MR. CHAIRMAN: In the financial statements, Mr. Marion, I believe there are some statistics on that.

MR. MARION: Thank you, Mr. Chairman.

MR. PARSONS: Yes, it doesn't show totally, when they put the money in it was all share capital. So he can't withdraw any of it.

MR. CHAIRMAN: Let us proceed with Micro-Com Electronics Limited.

MR. PARSONS: All right. Micro-Com Electrics. This is a manufacture of radio-microphone transmitters. Their main product was a cordless microphone. There was firstly a loan in 1971 authorized for $32,500 and it was fully disbursed. There was also a guarantee to the bank of $20,000 which was used. And in 1972 there's a further advance to this company in the way of a bank guarantee of $22,500, which gave a total amount of $75,000. The principals of the Bowen Company provided 25 percent of the total common and preferred shares issued or outstanding at no cost to the corporation, as a bonus for our participation. On the last financial statement which is May, '73, it showed a net deficit of $56,702.00. The company was basically insolvent. What happened, they developed a very good cordless mike. It was demonstrated well here at Rainbow Stage. Everything went very well for the company. Their market was the United States. They went into the United States and they put restriction imports on them because it was a device that could be used for tapping, because you could put that anywhere and it would broadcast. They blocked their market off, and that's basically what happened. They had no way of selling in the United States with this product.

(MR. PARSONS cont'd...)
There are two companies that make cordless microphones in the United States, but because of the great scare on wire-tapping and bugging, they class this as a bugging device. So they could not export to the United States, the company therefore had no market. That's basically where it would have been sold.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, this is a more general question, but it relates to exactly what's happened to this company, and was a question I wanted to raise at some point. That where a company approaches MDC for a loan, and it predicts potential sales in a product to different countries or just to . . .

MR. PARSONS: Yes, yes.

MR. .MINAKER: . . . or just predicts a potential sale -- what investigation is done by MDC in this regard? Do they just take the company's word that the potential sale is there in the first place . . .

MR. PARSONS: No . . .

MR. MINAKER: . . . or what kind of detailed investigation is done?

MR. PARSONS: We check the market and also check the product in the market. At the point in 1971, when this was conceived Watergate hadn't come around and there wasn't any restrictions on this. --(Interjection)--

MR. CHAIRMAN: Order, please.

MR. PARSONS: When we checked the markets and the product going in there was no problem. These fellows wouldn't have invested their hard-earned dollars in this either if they'd thought they were going to get blocked on their market.

MR. MINAKER: Have they sold any of these devices in Manitoba?

MR. CHAIRMAN: Have they sold any of those devices in Manitoba, the question is?

MR. PARSONS: I don't know whether they did or not. They made them, they had them out at Rainbow Stage. Whether they sold them to them or gave them to them, I don't know.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Mr. Chairman, through you to Mr. Parsons. Was there an attempt by this company to diversify?

MR. PARSONS: Yes.

MR. BANMAN: To produce something else?

MR. PARSONS: Yes.

MR. BANMAN: What happened to that?

MR. PARSONS: Basically, they were going into a radio transmitter known as the "Snow Goose". Ryerson Institute developed this "Snow Goose". They might have been able to go into production. They came to us for more funds to develop this. We looked at the project and the "Snow Goose" as such, is a small transmitter that's used in northern Canada. The model that Ryerson had completed wasn't satisfactory to the communications branch of the government, they wanted more work done on it. It looked like another 20 to 25,000 dollars to update it so that it would be passed for communications. These people wanted us to fund them for another 20 - 25,000. The Snow Goose did look like a good possibility, for there was no guarantee if we put another 25,000 in it, that would really make it work properly. Ryerson Institute had developed to the point that they thought that it was good, so they released it for a manufacturer to market it. They have large funds and large experimental lab, that they released it and thought it would be good, as I don't know whether we're smart enough to spend $25,000, and do what they didn't do. It may have gone to 50,000 or 75, so we chose not to go with that.

MR. BANMAN: Did the company not produce some of these, though?

MR. PARSONS: No. Well, they produced one, I think, one model. There was one sent down from Ottawa, and I think they produced one model, but it still wasn't totally approved.

MR. BANMAN: Will this company be going into receivership very shortly?

MR. PARSONS: It is at a standstill right now. I don't know whether anybody will put it into receivership or not.

MR. BANMAN: According to our report here, the government put about $77,000 into the company with the contingent liability, the guarantee, yet on the statement over here it shows that we're going to lose $83,000 -- there's a potential loss, the maximum loss would

(MR. BANMAN: contd. . .)
be $83,000.00. Is there a discrepancy there anywhere. . . ?

MR. PARSONS: Well, there's interest and so on that accumulates that's added on to that, and that's why you get up to $83,000. If we accumulate our guarantee fee and interest and so on, it takes that $75,000 up to $83,500.

MR. BANMAN: Could you tell us what the guarantee -- oh, it's on this statement, thank you.

MR. PARSONS: Yes, you see in here, if you add the amount disbursed column with the amount in arrears which is your interest, this is where your $83,500 comes from.

MR. CHAIRMAN: Okay? . . . Misawa Homes of Canada Limited.

MR. PARSONS: Again we have to table a statement that's over a year old, it's 31st of December of 1973. Oh, pardon me, 31st December, 1973, that is -- we got it. I thought I was going to have to table the old one. We basically have -- I don't think I need to read all the figures, you have them all -- are in Equity Investment Account Information sheet, for the dollars invested as of the 31st December, '73 and we've brought that up to February 28th, 1974. MDC owns 50 percent of the common shares issued and 20 percent of the issued preferred shares. The balance of the shares issued are owned by Misawa Homes Company Limited of Japan. Just to give you a few other figures, the total house sales in 1973. . .

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: I'll wait till . . .

MR. CHAIRMAN: Okay. Proceed, Mr. Parsons.

MR. PARSONS: Total house sales in 1973 were 60 homes. The total house sales to March '74 of this year is 20. In mid-December we had a good inventory of panels on hand to build homes, so rather than produce through the wintertime, or keep the plant going through the wintertime, we closed it down to where it had a staff of twelve. The construction operation is kept going, but of course in the wintertime it's a little limited as to what we can do, and we had panels for about just over 100 homes on hand in Gimli. This is why the plant was closed down.

In March '74 of this year, we further authorized another million dollar loan secured by debenture that's 50 percent guaranteed by Misawa of Japan. In other words, they put in half of that. The company is presently operating at a reduced scale. We expect that this will be resolved by the 30th of April '74. We have on hand 130 lots, 80 in Winnipeg and 30 in Leaf Rapids, which we will be erecting homes on. We have received contracts for some Manitoba Housing Renewal contracts in the last month. Are there any questions on this statement?

MR. MARION: Just one, Mr. Chairman.

MR. CHAIRMAN: Proceed, Mr. Marion.

MR. MARION: You mentioned that you had an inventory of roughly 100 homes, or 110 homes and this is why you backed up on production. At what date was this inventory?

MR. PARSONS: In December. We are using some of that up.

MR. MARION: Thank you.

MR. PARSONS: Actually there were various panels up to almost 145 homes, they weren't all balanced, so we have been carrying on with construction on a limited scale here in the wintertime. It's rather difficult, it's been a pretty tough winter.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, to Mr. Parsons.

MR. CHAIRMAN: Speak up, please.

MR. MINAKER: Of the $1,155,000 in sales for '73, what was the total sales to either government corporations or government departments in the Province of Manitoba, and how many houses would they represent as well as total dollar figures? Like, we're talking about Leaf Rapids, I think also there were some homes that were sent to Iceland . . .

MR. PARSONS: There was ten sent to Iceland -- I'll have to get that . . .

MR. GREEN: I'm not sure the Leaf Rapids homes were sold to the corporation. I'm not sure, I can't say. I think that Sherritt-Gordon bought the Leaf Rapids homes. And some were bought by MHRC, I think, but they were tendered homes.

MR. PARSONS: Yes, they're all tendered. The Leaf Rapids, incidentally, are not bought by the government. They're bought by Sherritt-Gordon.

MR. MINAKER: Mr. Chairman, my question is, how many of these homes ended up

(MR. MINAKER contd.)
on province projects or were bought by the province. I'm not disputing whether they were tendered or not, Mr. Chairman. That was just a question I wanted to . . .

MR. PARSONS: I'll provide that for you. I don't know the breakdown.

MR. MINAKER: And how many dollars value that represented?

MR. PARSONS: Yes.

MR. MINAKER: The other question is, what's your present monthly overhead expenses at this reduced operation rate? There's a fixed overhead plus your salaried personnel. What is that figure right now?

MR. PARSONS: I'll have to get that, too, I don't have that. We have that figure and I can supply it.

MR. MINAKER: The other thing is, the plant is presently open now, is it?

MR. PARSONS: No.

MR. MINAKER: It's shut down?

MR. PARSONS: Yes. There are a few people up there because we are moving out panels and we are repairing some things, but the . . .

MR. MINAKER: But the panel as a manufacturing line goes, is pretty well shut down?

MR. PARSONS: That's correct, yes.

MR. MINAKER: It's just a staff to keep the place clean and . . . ?

MR. PARSONS: Well, we are moving panels out too.

MR. MINAKER: Yes, that's right.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Chairman, Mr. Parsons said that the difficulties would be resolved by April 30th, 1974. Does that mean that you're going into full production . . . first?

MR. GREEN: I'm sorry, Mr. McGill, I didn't . . .

MR. CHAIRMAN: Mr. Green. On a point of order.

MR. GREEN: He didn't say the difficulties would be resolved by April 30th. I thought he said that the matter would be resolved.

MR. McGILL: Well, matter or difficulty . . .

MR. PARSONS: I can carry on from there. We're laying out a new program for 1974. And a long-term program as well. We hope to have that all laid out, a program laid out for the year, by the end of this month. We are working with the Japanese on it, so that we are all in accord with this program.

MR. McGILL: How many homes will you produce a month on your projection?

MR. PARSONS: We haven't finalized that, but the plan is capable of producing enough panels for 50 homes a month.

MR. McGILL: You haven't made a projection though, on . . . ?

MR. PARSONS: We haven't completed that. Along with manufacturing you have to know where you're going to put them and how you're going to sell them. So as I say, . . .

MR. McGILL: What did you say your capability was a month in terms of numbers of units?

MR. PARSONS: About 50 units.

MR. McGILL: Fifty units a month.

MR. PARSONS: We could up that by upping the shifts of course.

MR. McGILL: How many people would it take to produce 50 units a month?

MR. PARSONS: There's about 35 -- approximately 35 in that plant -- 30 to 35.

MR. CHAIRMAN: Mr. Blake -- I'm sorry, Mr. McGill, proceed.

MR. McGILL: Can you give me the name of the President and the Board of Directors? I don't think it's in this statement for Misawa.

MR. PARSONS: I'll get it for you.

MR. McGILL: You don't have that . . . ?

MR. PARSONS: Well, we may be able to get it before this session's over, yes.

MR. McGILL: Yes.

MR. CHAIRMAN: Mr. Blake.

MR. BLAKE: Thank you, Mr. Chairman, I have a question for Mr. Parsons. These homes, I assume that some of these homes have been sold throughout rural Manitoba, and I wondered if he might tell us, have they been completely satisfactory once they've been erected on site and occupied. I wonder if he could tell us of what experience the corporation

(MR. BLAKE contd.)
has had, if they've had complaints or have they been completely satisfactory?

MR. PARSONS: No, the reports we've had back, they are very well constructed. Because of the type of panel construction, they are stronger, the floors are sturdier, we've had good reports back on the homes. There's the odd one out of 60 that they've had to replace a panel in, but basically the reports have been good. They're a good looking home and they're solidly constructed.

MR. BLAKE: And they would cost, roughly what is the sale price of an average size three-bedroom home?

MR. PARSONS: They're not any cheaper than a conventionally built home. You say a three bedroom -- it depends what you do with a three-bedroom house . . .

MR. BLAKE: Yes.

MR. PARSONS: . . . so I can't give you that answer. But we are not marketing them for less than a conventionally built home. We are able to get the same type of price, and the customer, or the person buying the home is getting a better, -- we believe, a better home, because of the type of construction.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, to Mr. Parsons. In the questions I raised earlier that you were going to get the answers on, I wonder if you could, particularly relating to the overhead costs at the present minimum operating standards of manufacture, could you let us know what the salaries are included in that overhead cost, and also the number of employees that would be working at this reduced operation level?

MR. PARSONS: The number of employees presently working -- at the Gimli plant or in the overall operation? Because we have a research and design team as well . . .

MR. MINAKER: Well, if that would be part of your monthly overhead costs of . . .

MR. PARSONS: Yes . . . Do you want the individual . . .

MR. MINAKER: . . . the individual research team and also the actual manufacturing personnel?

MR. PARSONS: And you want the individual salaries?

MR. MINAKER: No, no, no. Just the total . . .

MR. PARSONS: Oh, the total salaries that are paid out . . .

MR. MINAKER: The total salary per month in that minimum overhead figure . . .

MR. PARSONS: Right.

MR. MINAKER: . . . also the number of employees that would be in the plant operating at that reduced level and those in the research department.

MR. PARSONS: Right.

MR. MINAKER: No, we don't want individual salaries.

MR. PARSONS: Okay. We have all that, I'm sorry, I don't have it . . .

MR. MINAKER: Also in the projected sales for 1974, in dollars and numbers of houses, I wonder if you could include how many are for government projects this year? It was indicated some were for Leaf Rapids, I think you indicated 50, and also, or for government corporations or departments? Would that be too much difficulty for you?

MR. PARSONS: No, we can project our sales. We don't always know where they're going to be . . .

MR. MINAKER: No, we don't know what we're talking about obviously . . .

MR. PARSONS: We have some now. We have some tenders . . .

MR. MINAKER: You have some commitments from these agencies, the government corporations. . . ?

MR. PARSONS: No, we don't have commitments until they're actually bid on, then they come back. We don't . . .

MR. MINAKER: But they would be part of your projected sales figure that you would anticipate. . . ?

MR. PARSONS: Oh, yes, yes.

MR. MINAKER: . . . that you have a chance to.

MR. PARSONS: All right, we can give you a rough breakdown on that. I'll take a look and see if we can give you the breakdown.

MR. MINAKER: I would like to get that for the committee if we can, Mr. Chairman. I think it would be useful.

MR. CHAIRMAN: Well, the chairman indicated that where it's possible he will get that information. Mr. Marion.

MR. MARION: Thank you, Mr. Speaker. I realize in some of the comments, that we're not merchandising this home on an advantage of cost basis. So in other words it's competitive with other homes. But I still would like to know if we've analyzed the actual cost factor in building one of these homes, because the on-site builder is meeting with a bunch of uncontrollable costs, whereby if you're building this kind of product in a controlled environment, if I might use that term, are there not some very distinct price advantages in this kind of construction? You've analyzed the cost factor?

MR. PARSONS: Yes, we anticipate there'll be a saving, because we're getting away from on-site labour by making the panels in the plant. As you know, on-site labour is getting scarce and expensive, so by going through a manufacturing process and then erecting the job at about 20 percent of the labour that would normally be in a conventional type home, there is definitely going to be savings. I don't have a percentage of savings. It will take quite a few homes and projects before we really come up with that type of saving, but in the meantime we're not selling them at less than a conventional home.

MR. MARION: I gather then, though, that because of this controlled environment on costs. . .

MR. PARSONS: Yes.

MR. MARION: . . . we are protecting a mark-up -- we are protecting a mark-up on the home that we sell?

MR. PARSONS: Yes.

MR. MARION: This is fair to assume? What is the marketing aspect of Misawa homes, how are we marketing? Through whom do we merchandise the product?

MR. PARSONS: We've done our own sales up to this point. We intend to probably go into a distribution of panels through building dealers. But up till now we have done our own selling with our own marketing organization . We haven't got our distribution set up, but that could be.

MR. MARION: Have we evalued, Mr. Chairman, I'm following up -- have we evaluated the kind of market potential we have with the product that we have at Misawa? In other words, have we estimated that in a year we might sell 300 homes through an analysis, or at this stage have we not done this kind of an analysis on marketing?

MR. PARSONS: Oh, we have a marketing study done.

MR. MARION: What does the marketing study reveal with respect to potential sales of our product, in housing units -- in units?

MR. CHAIRMAN: Well, Mr. Marion. . .

MR. PARSONS: I think maybe I'd better get a -- I'd like to write that out because there's various aspects on how you approach the market, whether you approach the market and where we take the panels and actually do the building ourselves and sell it as a home, or whether we take the panels and sell them across western Canada through distributors -- in that case all we're selling is a manufactured product, we are not doing the erecting. So I think I would, rather than give you a number of houses that are liable to be sold, I think it needs a little bit more breakdown, Mr. Marion, which I will undertake to give you at the next meeting if you wish.

MR. MARION: Well, thank you, I'd appreciate that. I notice that we talked about the plant production being some time after April when all of the various ramifications are taken care of, that we will be able to produce 50, and I'm wondering -- certainly this 50 in your marketing study would be disposable every month I would think?

MR. PARSONS: Oh, yes. Yes.

MR. MARION: My last question, and this is from sheer ignorance of the product. Is this product designed for any specific region in Canada or Manitoba? Is it residential area in an urban setting? Is it a northern setting, like. . .

MR. PARSONS: No.

MR. MARION: . . . new development in northern Manitoba. . . ?

MR. PARSONS: No. They're a very good looking home if you saw one erected. Well, there are homes erected here in Winnipeg. We have a research and design, there's always innovations in building, in the architectual appearance of the home. But basically you wouldn't know the difference if you drove by one in town here. And there's one built over in

(MR. PARSONS: contd.)
your area. . .

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, further to what Mr. Marion was reviewing with Mr. Parsons, I don't expect you to give out the per square foot tendering price, that wouldn't be fair because we're in a competitive bidding arena, hopefully, and what I was wondering is, how do you arrive at your tendered price? Is it what you feel the market will bear or do you actually have a projected sales for the year related back to your overhead costs with a profit figure in it, and that's what you're bidding on? Or do you just bid to what you feel the market place will bear?

MR. PARSONS: No, we bid on a costing base with a percentage to cover overhead and a percentage for profit.

MR. MINAKER: How come we've got a $928,000 loss for the year?

MR. PARSONS: You mean last year? Well last year was a largely -- if you look at them, they're largely development costs. That wasn't because of the -- there is a loss on. .

MR. MINAKER: Well, what was the predicted house sales for last year, your sales quota for house sales last year, what was it for the company?

MR. PARSONS: You mean what we had budgeted for?

MR. MINAKER: Right.

MR. PARSONS: I'll have to look back and give you that figure. I don't have it. . .

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Well, Mr. Chairman, Mr. Parsons told us that one of the main advantages was because of the higher on-site labour costs, this made the Misawa home competitive. From that, am I correct then in assuming that the labour costs in Misawa are below the average labour costs than the rest of the province?

MR. PARSONS: No. What I said is because it was done on a manufacturing basis on assembly line in the plant then this reduced the on-site labour necessary when you are constructing the home. This is where the saving is because you can do it in a production type of basis building the panels. It's not because of cheaper labour, it's because of less labour hours out on the job. Your panels can be produced at a much lower hourly labour content within a plant than they can be out on site.

MR. GRAHAM: I just wanted to know whether. . .

MR. PARSONS: It's not because of -- if you're thinking of a lower wage rate, then it's not so.

MR. GRAHAM: Very good, then, thank you.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Well, Mr. Chairman, I'd like to just get some well-known, or what I think are well-known answers first, and then I'd like to ask Mr. Parsons a general question. But this particular operation is in partnership with Misawa Homes (Japan) Limited?

MR. PARSONS: Yes.

MR. GREEN: And my understanding is, that Misawa Japan has participated 50 percent of the costs to date, Grosso moto, perhaps they have put up slightly more than we put up prior to this last million dollars?

MR. PARSONS: Yes, they have more actual cash in than we do.

MR. GREEN: Yes, And therefore when we look at that development loss, and operating loss, to put it in its worst terms, we are talking about $450,000, Japanese dollars, or dollars contributed by Misawa Japan Limited, and $450,000 by the Province of Manitoba?

MR. PARSONS: Yes, if you're looking at it that way. We share the loss 50-50, yes.

MR. GREEN: That a private company in Japan has been willing, apparently, to lose $450,000 in this province on this product?

MR. PARSONS: Yes, definitely, -- a matter of . . .

MR. GREEN: Willing?

MR. PARSONS: Yes, they thought our development costs were low, quite frankly. . .

MR. GREEN: Did they not lose it reluctantly?

MR. PARSONS: I don't know that anybody loses it joyfully. No, they had anticipated. .

MR. GREEN: When I said that they were willing, I meant that they found that acceptable?

MR. PARSONS: Yes, as they said to us -- in their first year of operation in Japan when they started up, their development costs were actually higher than we had anticipated here, and they said for the first three years of their operation in Japan, they lost a considerable amount of money in developing the company over there. And they are now the largest house builder in Japan. They built 50,000 units this past year. And they have about twelve plants. They do it both ways, they do it through distributing the panels as well as developing complete housing areas.

MR. GREEN: I believe that I saw their statement or at least had it reported to me, and that their last statement Misawa (Japan) Limited showed a profit in the neighborhood of $12 million, although I may be wrong about that. Can you remember the. . .

MR. PARSONS: It was higher than that.

MR. GREEN: It was higher than that?

MR. PARSONS: It was 17 to 18 million yes. . .

MR. GREEN: 17 to 18 million dollars.

MR. PARSONS: Pardon me. Oh, yes, that was before tax.

MR. McGILL: Did they offer you a piece of the action in Japan?

MR. GREEN: I have stayed away from our discussions with the Japanese, but I will tell Mr. McGill that they are entirely of a different nature than what he is sort of implying. I don't think that it's fair to them to go further. But it is not of a nature that he has implied, and I really think that that's about as far as I can go.

MR. McGILL: Pardon me. . .

MR. GREEN: I would like you, Mr. Parsons, to indicate, not that it necessarily applies to the Manitoba scene, because I think that there are big distinctions, but can you tell the Committee in broad terms the nature of this operation in Japan? Who are we dealing with, I mean, and what are they capable of?

MR. PARSONS: Well, as I say they are the largest home builder in Japan. And incidentally, we could get a part of the action if we wanted to, they are a public company in Japan. We could go out and buy their shares.

MR. GREEN: . . . could have a consolidated balance sheet.

MR. PARSONS: They are moving very aggressively in Japan, and they have now erected plants in Hawaii. They're expanding into the United States. They have a dealership arrangement throughout Japan. They have a construction company as well. So, as I say, they're doing it on both methods there. They have a large training school. It's probably the finest training school I've ever seen. They have overhead projectors and every fine instructional instrument you could find, and they have a constant training program for carpenters, and so on, right within their own organization.

A MEMBER: That's not done by the . . .

MR. PARSONS: No.

MR. GREEN: The training school as I understand it, is paid for entirely out of the operations of the company; they receive no government assistance for their educational program.

MR. PARSONS: Well, their system is quite a bit different, and their business approach is different over there, too.

MR. GREEN: Now, my understanding is that we, in Manitoba, now have the Canadian rights relative to Misawa Homes.

MR. PARSONS: That is correct, yes.

MR. GREEN: Canadian?

MR. PARSONS: Canadian.

MR. GREEN: Canadian. That is correct. I understand, also, and I'm not sure of this, that we also can be the North American based operation for Misawa Homes, although maybe they are now making. . .

MR. PARSONS: No, they have their own rights to arrange in United States territory.

MR. GREEN: Yes. But I wonder whether it is still open as to whether we can be that agent if we were sufficiently confident of our own participation.

MR. PARSONS: Oh, yes, they offered us this; but there would involve a lot of money being invested outside of Manitoba if you went into the United States operation of plants down there.

MR. GREEN: Now, my understanding is that in Japan, that Misawa does not have

(MR. GREEN contd.)
plants such as we have in Manitoba, except perhaps one as a prototype operation?

MR. PARSONS: That's right, they own one plant similar to Manitoba, the same type of equipment, it's a larger plant; the other plants are owned by outside investors. . .

MR. GREEN: Who pay for the right to build Misawa homes?

MR. PARSONS: That's right. They pay a franchise fee and they buy all the equipment from Misawa Japan, for their plants. There's 11 or 12 plants owned by other contractors actually, and they build the panels.

MR. GREEN: And if our Canadian operation met with the aspirations that they have for it, would it not be the case that any plants set up in Manitoba, in Canada, would pay the Manitoba company?

MR. PARSONS: Yes. Yes, we would get the franchise fee for any plant built anywhere else in Canada.

MR. GREEN: Now, is it not also the case that they do not accept again as a prototype market, but they sell dealerships throughout Japan to people who then market the homes?

MR. PARSONS: That's correct. That's their concept, dealership concept for selling.

MR. GREEN: And is that not also the same case vis-a-vis the construction on site, that they do not do it except perhaps as a prototype?

MR. PARSONS: Yes. Yes, they. . .

MR. GREEN: They arrange with contractors for the construction of those homes?

MR. PARSONS: Yes, this is true. As I stated, they have a dealership arrangement and the dealers sell to contractors.

MR. GREEN: Now, I've described this in the terms that I can, and I put it to the Japanese people, and got an affirmative answer, that they sort of market homes and arrange the production plant on site and dealership in the same way as MacDonald's sell Hamburgers.

MR. PARSONS: Yes.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Yes. Mr. Chairman, the reports of success on this operation in Japan compared with the reports we have here in Manitoba, can Mr. Parsons say why it is that this has been going so well in Japan and why it is that it's shut down in Manito ba? What's the problem?

MR. PARSONS: Well, to start off with, we're not shut down. I thought I explained the reason why the plant in Gimli was closed down for three or four months, because we'd produced as many homes as we could use at that time. So we decided to close the plant. There was no use stock-piling panels. But as I also stated, Misawa (Japan) lost money for their first three years while they were developing this -- a substantial amount -- before they turned the company around. We've had losses, a substantial loss this year. They didn't -- they weren't alarmed at all at the amount. They were very happy with the progress that has been made; they fully expect for the first three years that we'll lose quite a substantial amount, and they are quite willing to put in more money.

MR. McGILL: When do you expect that the operation will turn around and be profitable in Manitoba? By what date?

MR. PARSONS: Well, we hope by the end of the second year.

MR. McGILL: And that would be 1975, or '74?

MR. PARSONS: Yes.

MR. McGILL: End of '74?

MR. PARSONS: No, at the end of '75. Well, it will be the third year. This next year we may be able to turn it around. We haven't finished the projections, and as I said, we hope to finish them this month in conjunction with the Japanese.

MR. McGILL: Just one final question, how many units are now built, occupied, or available for occupancy in Manitoba, produced by this company?

MR. PARSONS: There was 50 -- 60 homes erected in Manitoba. They're all being lived in now. I think most of them are -- the Leaf Rapids were the latter ones to be completed, and I think there are people in them.

MR. McGILL: 50 or 60?

MR. PARSONS: Yes, there was 60 last year. We've been working on them -- some during this winter.

MR. McGILL: That would be about one month's production when you're under full. . .

MR. PARSONS: Yes. Well, of course the plant didn't get going until late in the year.

MR. McGILL: How many outside of Manitoba?

MR. PARSONS: Well, I think there was just the ten that was sent to Iceland.

MR. McGILL: Iceland. Okay. Do you happen to have that information on the president and board of directors just so that. . .

MR. PARSONS: The board of directors? Mr. Jim Hansen, Alex. Filuk. . .

A MEMBER: Would you spell it, please?

MR. PARSONS: Jim Hansen, H-A-N-S-E-N. Alex Filuk, F-I-L-U-K. He is a resident of British Columbia. This company was actually a registered British Columbia company when it was originally started. We have left it because it doesn't mean anything, but we have a director out of British Columbia. Andrew O. Schwartz, S-C-H-W-A-R-T-Z, of Winnipeg. Mr. Y. Kataoka, K-A-T-A-O-K-A, Mr. Y. Kato. . .

MR. McGILL: Is Kataoka Japan or Manitoba?

MR. PARSONS: Japan. Mr. Y. Kato, K-A-T-O, of Japan; Mr. C. Misawa, M-I-S-A-W-A, Japan; Mr. H. Fenster, Winnipeg.

MR. McGILL: F-E-N-S-T-E-R?

MR. PARSONS: F-E-N-S-T-E-R. Dr. Peter Briant, Montreal; Mr. Darwin Chase, C-H-A-S-E of Winnipeg; Mr. Hansen is the Chairman and President of Misawa.

MR. McGILL: Who are the representatives of MDC on the board?

MR. PARSONS: Hansen, Filuk, Schwartz, Fenster and Chase.

MR. McGILL: Thank you.

MR. CHAIRMAN: Mr. Marion.

MR. MARION: Yes, Mr. Chairman. I think that some of the questions that were asked by the Minister certainly brought to light again the marketing problem. I wondered if we could explore how they're being marketed in Japan, and I know that the answer was given, but there are some parts of the question that weren't answered? In Japan are these sold to individual lots or are there a number of them in a special development? Or is it a blend of both?

MR. PARSONS: Yes, it's a blend of both. We sell both. They showed us one fairly large development that a contractor had undertaken. This was a contractor that had bought the panels and homes. It was a very nice residential area. But you could walk in and buy a house as an individual if you had a piece of property. And in Japan this is a very common thing for you to have a piece of property, and you go and sit down and they show you the houses, and then they will get a contractor for you -- you buy it in a showroom like you would a car here.

MR. MARION: Mr. Chairman, to Mr. Parsons, there has been a proven market merchandising method in Manitoba for summer cottages, and it would seem to me that the problem that we're faced with in this particular project is, is marketing and there's no doubt. At first look this is the way I see it. Has this kind -- the way that we're merchandising cottages through builders and through contractors, has this avenue been explored with respect to this product?

MR. PARSONS: Yes. We are looking very seriously at it. This is a part of the Japanese concept, to do it that way.

MR. MARION: Have the results of your investigations proven fruitful to date? Have you found that there were builders or building supply people, or even contractors interested in . . .

MR. PARSONS: Yes, we've had a lot of interest shown, but we haven't concluded any agreements. But they are very interested in the method of doing it.

MR. CHAIRMAN: Mr. McKellar.

MR. McKELLAR: Yes, Mr. Chairman, I was just wondering, Greenwood Forest were a company that were involved with this company that you're talking about, this Japanese company; are they still involved, are they still part of the overall company here or what? Where do they fit in?

MR. PARSONS: They have no involvement and they do not fit in with this.

MR. McKELLAR: Were they never involved, the Greenwood Forest?

MR. PARSONS: Yes, they were originally.

MR. McKELLAR: When did they drop out of the company?

MR. PARSONS: At the same time, when the company actually started with us and with Misawa, Japan.

MR. McKELLAR: I see.

MR. PARSONS: Greenwood Forest products registered the name of the company for the Japanese. They were to produce the lumber for it, and in fact I think Mr. Dobie's operation, Greenwood Forest Products, do produce lumber for Misawa of Japan. It has nothing to do with Misawa Homes of Canada.

MR. McKELLAR: I see. Well, I was just interested, because they had been involved with Green. . .

MR. PARSONS: That's right.

MR. McKELLAR: Their experience hadn't been good, and that's why I was wanting. . .

MR. PARSONS: Well, his experience out in British Columbia's been pretty good.

MR. McKELLAR: You mean, Greenwood Forest in British Columbia's been good?

MR. PARSONS: Yes, because they . . . of Canada; they obtained all their assets, that's why.

MR. McKELLAR: Then they should be good. Yes, that's all the questions I have, Mr. Chairman.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, to Mr. Parsons. When Mr. Green was talking about the franchising rates for Canada, he was painting quite a glowing future. . . is correct.

A MEMBER: No, no. I don't.

MR. CHAIRMAN: Proceed, Mr. Minaker. Mr. Green you can --you're on the list.

MR. MINAKER: . . . being in the agency business myself, that there always is a termination clause within the agreement with a company, and particularly where there's franchise involved, or rights for a country or a land. . .

MR. CHAIRMAN: Would you speak into the mike, please. It's not getting. . .

MR. MINAKER: I'm sorry. Mr. Chairman, it relates to the franchising rights for Canada for Misawa Homes, and the North American continent. Like all franchises or agencies there's a termination clause with the company who has come forward with the idea and copyrighted it, or whatever is involved, to protect this idea. I'm wondering what is the termination clause in the agreement that MDC has with, or Misawa Homes has with Misawa Homes (Japan)? Is there a limit on what they expect, the number of houses to be sold a year, for all of Canada; and also what is the termination notification time? Is it 60 days, because quite often a lot of these agency contracts, that they can give you notice and within 60 days you no longer have that franchise,right? Could we get the details on this?

MR. PARSONS: All right. I'll take it as notice for the next meeting.

MR. MINAKER: Because I think this would be a very important part in our thinking, on this company.

MR. PARSONS: The United States -- we had to make a -- all right, before I . . .

MR. MINAKER: I'm surprised you didn't know, Mr. Parsons.

MR. PARSONS: Well, I do, basically, but if it's going to be recorded I'll get it in writing and read it to you so that it's absolutely correct.

MR. MINAKER: You were going to make a comment before.

MR. PARSONS: Yes, I'll reserve it now.

MR. MINAKER: Okay.

The next thing is that I would presume that if we were going to try and protect these rates for all of Canada, that you would have to have a fairly extensive marketing organization. I wonder if you can at this time advise us, are you presently trying to market these dealerships, and so on, right across Canada? This is part of our study.

MR. PARSONS: Yes, but, as that study shows, in order for us to,probably to market in eastern Canada, we require a plant to be built there. But this is all part of an overall study. I don't think we could produce panels here in Manitoba and ship them to Montreal and be competitive -- there's just no way. So, therefore, the whole concept would mean, the same as they have done in Japan, building, or getting other franchise operators.

MR. MINAKER: In your agreement does it state that if you want to maintain the rights for all of Canada, that if a plant is required in Montreal to make it equitable and competitive to sell these homes in Montreal, that we would have to put up 50 percent of the capital for that . . .

MR. PARSONS: No. No, it does not, no. As a matter of fact, the concept is the other way. The Japanese would, as they have done in Japan, go to an outside investor, and they would pay . . .

MR. MINAKER: Then I would presume if we wanted to maintain the franchise rights for Canada, we would then have to make sure we looked after the marketing. . .

MR. PARSONS: That could be a part of the responsibility, not necessarily, though. That is broken down in areas also.

MR. CHAIRMAN: Mr. Blake.

MR. BLAKE: Thank you, Mr. Chairman. I wonder, Mr. Chairman, through you to Mr. Parsons, if he might indicate what he sees -- if the company is as successful, and hopefully it will be along the lines that Mr. Green has described, in the way they will market the product here -- I wonder if he might comment on what role he foresees for the small contractor that now builds 3, 4, 5, 10 homes a year? Would he be able to compete with a massive company such as this if it grows the way that it is anticipated, or would he become an agent just to erect their homes?

MR. PARSONS: No, part of the concept, instead of going to a lumber yard and buying a two-by-four he goes to the distributor and buys a complete panel. It would aid him because smaller contractors are having a pretty tough time right now. This system has proven beneficial to small contractors in Japan., because of this. They can go and they buy the panels, and with less on-site labour they can erect them and be competitive and stay in business.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Thank you, Mr. Chairman. Through you to Mr. Parsons. Has there been a problem with the construction as far as the stress problems with regards to different panels and grouping the material that they've been using?

MR. PARSONS: We've had the odd problem. I don't know that it's a stress problem.

MR. BANMAN: Could you confirm that these panels have to be built a little heavier than an ordinary house because of shipping?

MR. PARSONS: No, they're lighter. The panel itself, there's lighter wood used in it. And because of the type of construction -- in other words, you're putting skin on both sides of the -- they're not two-by-fours, they're one and a quarter by three -- they're smaller studs in them than there is in a normal home because of the skin-type of construction and the glueing on and stapling on of the plywood, they're actually lighter, but stronger.

MR. BANMAN: All right. Do you feel transportation is going to be a problem because they are fairly bulky . . .

MR. PARSONS: No.

MR. BANMAN: . . . with the transportation costs rising?

MR. GREEN: It would be for Montreal.

MR. PARSONS: Well, it depends on the area you're going to ship them. Not any more than any other lumber.

MR. BANMAN: Would you say that the price of a panel would compare favourably to, let's say, a regular studded home with panels on the one side?

MR. PARSONS: Yes. Yes. We anticipate there will be less because the labour would be done on a manufacturing assembly line rather than in the field.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Well, Mr. Chairman, just by way of qualification or if it needs it, I don't believe that I have given a glowing account, nor do I approach this with optimism. I am traditionally the pessimist. I look upon it as being a challenge, but I do not say that there is a glowing future, nor do I say that I am greatly optimistic as to what occurs. What I was trying to get from the chairman, was merely the potential that exists as indicated by the Japanese experience, and I tried to indicate at the outset that I do not know that the Japanese experience can relate to the Canadian experience -- and as a matter of fact I doubt it. I was merely trying to indicate what Misawa Japan has been able to accomplish and who we are working with. As to the future, I tend to be very guarded rather than optimistic, but that doesn't mean that the program should not be thoroughly considered. So I want to indicate to the members who said that I was presenting a glowing account, that I intended no such presentation. I would ask because I believe this to be a distinct possibility, Is it possible that a prototype in Manitoba, even operating at maximum efficiency, with the Manitoba market, may not show black figures and yet the prototype experience if it can then be projected to other places and other markets could justify the Manitoba operation?

MR. PARSONS: Oh, yes, yes.

MR. CHAIRMAN: Mr. Johannson.

MR. JOHANNSON: I have a couple of questions with regard to requirements of building codes and other agencies. Does the Misawa product meet CMHC requirements?

MR. PARSONS: Yes.

MR. JOHANNSON: It does?

MR. PARSONS: It has to.

MR. JOHANNSON: What about the national building code and local building requirements?

MR. PARSONS: Yes, we have a research and design department. When the first homes were designed and presented there was the odd thing that had to be changed on them, but that's an engineering problem that was overcome. There's no problem of getting mortgages now. It has to comply with the local and Canadian building codes.

MR. JOHANNSON: The first homes that you built were completed when? I got here late, so I may be repeating some questions. And if I am, I apologize.

MR. PARSONS: No, no, that wasn't asked before. Yes, it was May or June of 1973.

MR. JOHANNSON: 1973.

MR. PARSONS: Is that close enough? It was the spring of '73.

MR. JOHANNSON: Were these ones done in Ashern?

MR. PARSONS: Yes.

MR. JOHANNSON: And have you had any reports on them?

MR. PARSONS: No.

MR. JOHANNSON: No.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, when Mr. Parsons is going to report on this franchising agreement, I wonder if he could advise at that time, or if he can maybe advise at this point, if the development costs of the marketing end -- I would presume the fact that he indicated capital in another location like Toronto or Vancouver would be arranged with someone other than MDC -- that if the development costs of marketing and promotional costs to advertise Misawa Homes in these different cities and so on, would that be shared 50-50 with MDC and Misawa Homes (Japan) in order to have this franchising right? I wonder, is that part of the deal?

MR. PARSONS: Well, if we sell the franchising right, the franchising right is sold by the Misawa Homes of Canada, Limited, of which we are 50-50 partners, and they received a fee for that.

MR. MINAKER: But I would imagine in most franchising you'd have national advertising costs in brochures and so on, that are developed, say, like McDonald's . . .

MR. PARSONS: Yes.

MR. MINAKER: . . . they have a national charge for advertising and so on that's part of the franchise.

MR. PARSONS: We haven't got that established.

MR. MINAKER: You haven't got that established?

MR. PARSONS: No. But if we were going in for national advertising in various areas then it would be spread over. . .

MR. MINAKER: It would be owned by Misawa (Manitoba) Limited. We could control that?

MR. PARSONS: We could control it, and that would be a cost -- possibly a cost-shared basis is one way of doing it.

MR. CHAIRMAN: Are there any further questions on the Misawa Homes of Canada Limited? Then we can proceed to the next one, Morden Fine Foods Limited.

MR. PARSONS: We are tabling the latest audited financial statement which is 31st of March, 1973. We have updated on our equity investment account information report, the MDC investment and loan involvement in this company, plus the guarantees that we are involved in. This is a company that is owned 100 percent by the Manitoba Development Corporation. We purchased a cannery in the Town of Morden, Manitoba. I read in the Legislature the other day, in Hansard, that one of the members stated that we went out and bought this and put a company out of business that was operating it. We bought them out actually. This cannery, in fact, had been closed for a full year. The company that owned it, Canadian Canneries, had withdrawn from the Province of Manitoba, had closed the cannery, and were going to take the machinery out of it. They had laid off the people that

(MR. PARSONS cont'd)
worked in the cannery in the Town of Morden and surrounding areas. The farmers had lost the value of the crop that they had sold. This was all done before we got in it. We did not put anybody out of business when we took over the Morden canneries.

I would say that we went in there; certainly we bought the equipment at a good price from Canadian Canneries, so they would leave it here. They were willing to do this. We had a start-up of operations. We've got that cannery going. We had to merchandise new labels. We had to go out and develop a whole new market which wasn't available at that time, and that is, in a highly competitive business, it cost us money. We've run it for three years now. We've got the operation down this year. As you can see by the statement, there was still a loss last year. This year we're anticipating the year-ending March 31st, 1974; our sales are up to 1.4 million dollars, which is 40 percent over the statements that you're looking at. We projected, after all costs, interest, depreciation, guarantee fees, whatever, that we'll probably still have $40,000 loss this year. This is slightly higher than what we budgeted for. Two main reasons, the freight strike hurt us. Right in the canning season we had four carloads of cans which were en route from down east here, which were stopped when the strike came on. We have to bring our cans in by truck. The costs were higher. Labour and product costs have been rising and this has created a problem throughout the whole industry. But because of this, our projected loss at this point, for the end of March/74, is $40 thousand. We had hoped to get lower than that. We'd anticipated a loss of this year in our budget of about 30,000.

We are further expanding our lines out at Morden in the juice lines. We're looking from this expansion and from the expansion of our product -- it's been well received on the market-- that we think we'll turn the corner and make a profit for our 31st of March, '75. The product is being well received -- well, by the sales expansion being up 40 percent, shows you the product is being received. We did have some problem with frost in our corn crop this year, which unfortunately cut us back. We are hoping for a much better sales program next year. We think we'll probably be up to the million and three-quarter mark.

I feel that this is one thing -- I know it's been berated by certain people -- but I think this is one thing that's been a great thing for the Town of Morden. Those people out there are very proud of their cannery. They work hard in it, and they don't feel that they're a drain on the people of Manitoba. It has taken time to reopen it, and re-get it going, but they're certainly working hard to bring this around to a profitable situation, and we see that it can be.

MR. CHAIRMAN: Mr. Johannson.

MR. JOHANNSON: Is Mr. Parsons finished?

MR. PARSONS: Yes, I am.

MR. JOHANNSON: I have a number of questions. First of all, could you tell us what products you're now producing?

MR. PARSONS: Yes.

MR. JOHANNSON: And what area -- you said you were going to expand into juices.

MR. PARSONS: Yes.

MR. JOHANNSON: Could you outline exactly?

MR. PARSONS: Products we're producing, corn, niblets and cream corn; carrots, peas, beans (both cut and french) -- they are the base products. We're going into juices, grapefruit, grape, orange, what have you. I don't know how full the juice line is. These are sold under our own label, which is "Once Upon a Time" and "Manor House". We also sell about 50 percent of our pack under private label.

MR. JOHANNSON: I was going to ask what markets you're putting these in, because I shop. . . .

MR. PARSONS: Well, Safeways. . .

MR. JOHANNSON: . . . periodically and some of the products that you've mentioned, I haven't found on the shelves.

MR. PARSONS: Well, of course, our juice lines are not under our own label, so you're not going to find those.

MR. JOHANNSON: No, I'm talking about the french beans, french style green beans and . . .

MR. PARSONS: Well, if you shop at Safeway or Co-Op stores -- we're merchandising right here in Winnipeg.

MR. JOHANNSON: Are you merchandising in all of the supermarkets now?

MR. PARSONS: All the supermarkets do not buy from us.

MR. JOHANNSON: They don't.

MR. PARSONS: No. I mean, they have their own labels, and as I say, Canada Safeway's been very good. They were the first and probably the largest supermarket here; they took in the Manitoba product and gave it shelf space and have right from the start. The Co-Op stores have the market. But it is -- the majority of our market is Manitoba. We do go Thunder Bay. That's as far east as we go, although in the last year we have got some into Steinberg's in Toronto. Further than that. . .

MR. CHAIRMAN: Order, please.

MR. PARSONS: Yes, the Econo-Mart, yes, have it. We, as far as west go, the Province of Alberta is as far as we can economically go.

MR. JOHANNSON: Yes. What sort of advertising budget do you have, and what type of advertising are you doing?

MR. PARSONS: We have a very low operating -- advertising budget. I think last year it was about $40,000, which is very limited for this type of product. We do two types; some of our own label, and then we do co-op advertising with the chain stores. Well, in January we had the Product of the Month on radio, for instance.

MR. JOHANNSON: Yes. What is the employment pattern that you provide in Morden? How many people are on full-time? How many are on part-time, and how many farmers operate under contract to you?

MR. PARSONS: All right. Full time employees right now, about 44 -- that can go up to 125, 130, in the top canning season. I don't know how many farmers we contract with, by number. Just a minute -- I can possibly give it to you. Well, I'll just read you a part of a supplementary information report I have here. "The plant is now employing 44 people on a full-time basis up to 125 people during peak period. The annual payroll is over $300,000. The payments to the Morden area growers varies from 175,000 to 200,000 annually. Other Manitoba purchases would be approximately 300,000. The plant utilizes approximately 2,000 acres of farm land, and now that we're going into other products, we'll probably take on another 300 acres." Now, that's all in a contract, but I don't know what the breakdown is, how many farmers that would cover.

MR. JOHANNSON: Is the plant unionized?

MR. PARSONS: Yes.

MR. JOHANNSON: What sort of wages scale are there, roughly?

MR. PARSONS: There's a good wage scale. Well, the plant is paying a good union rate. There is a shortage of labour out there, actually, but. . .

MR. JOHANNSON: One final question, I've noticed that the prices of your product in the supermarkets have remained very low, and I've also noticed that the corresponding products produced by other companies have remained fairly low also.

MR. PARSONS: It's a highly competitive. . .

MR. JOHANNSON: Has your product had any effect on keeping prices low in this area?

MR. PARSONS: Well, we don't try to depress it but it probably has an effect because the other people come in and hold the prices down in this area where I know they're higher in other areas, and it may be because of our product. From a business point of view I'd like to see the product get more money from, I guess from a Manitoban point of view I'd like to see it forcing the other prices down. But you're right, it has in some areas. Canadian Caneries came in here with quite a program on to undercut Morden, but we went through that and I think that's part of business. What you're saying is right, it had an effect, I'm sure.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Well, Mr. Chairman, on something along the same lines. Mr. Parsons said he hoped to have it turned around and be in a profit situation by the 31st of March, '75.

MR. PARSONS: Yes, the first section.

MR. McGILL: Yes.

MR. PARSONS: Yes.

MR. McGILL: So I assume that you are watching your costs of production. . .

MR. PARSONS: Very closely.

MR. McGILL: . . . your labour costs, and adjusting your sales price. . .?

MR. PARSONS: Yes.

MR. McGILL: Otherwise you would be just turned around?

MR. PARSONS: We'd be dead this year. That's correct. We would have been a lot worse off this year, because there was quite an acceleration in the fall of '73.

MR. McGILL: Yes. Now, one other comment you made that rather surprised me -- you mentioned people as having berated this operation.

MR. PARSONS: Yes.

MR. McGILL: I rather thought that this was a kind of an operation where Manitoba had sort of a natural advantage, in that they could produce vegetables and things and process them.

MR. PARSONS: That's correct.

MR. McGILL: . . . then surely if we can't be successful in this then we're going to have a lot of trouble, particularly in those exotic type of industries where we have been more critical. So, were you thinking of any particular section of critical comment that was applied?

MR. PARSONS: They just didn't think it was a thing that . . .

MR. McGILL: "They" meaning?

MR. PARSONS: Well, there's Mr. Asper -- his comment in the House said that we drove a business out of the province and took it over and shouldn't be in it at all, and didn't think it was doing anything for us. And I take objection to that stand. I don't agree with him.

MR. McGILL: I just want to be on the record that this isn't the kind of an operation that we on our side have been critical of, that we felt that it was. . .

MR. PARSONS: No, I agree with your comment. I think it's a natural thing for Manitoba, and I think it's a thing that when private industry pulled out of it completely that it was a good development role for us to go into it.

MR. McGILL: Yes.

MR. PARSONS: And I think it's going to be successful. But, as we were talking about before, when you start up an industry like this, it's taken us three years before we can turn this around. But we do see with our sales volume reaching the peak it is now, that we will have a turn-around operation.

MR. McGILL: Now, Mr. Chairman, I wonder if you could provide us with the names of the president and board of directors, for a more. . .

MR. PARSONS: I am the Chairman of that Corporation.

MR. CHAIRMAN: Order, please.

MR. PARSONS: I think I'm the President, too. --(Interjection)-- Well, because it's an in-house operation, that's not too important. I'm the chairman. We have Mr. Ed Ilnicki as the general manager.

MR. McGILL: ....Sir?

MR. PARSONS: Ed Ilnicki, I-L-N-I-C-K-I. He is a staff member of MDC.

MR. McGILL: Do we have any board of directors?

MR. PARSONS: Yes, we have a board of directors. Let me, let one of the fellows write them down and then I will read them all to you. It will be quicker than me.

MR. McGILL: Okay.

MR. CHAIRMAN: Okay.

MR. PARSONS: I'll give it to you before the meeting closes.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Well, I think McGill asked most of the questions I was concerned about. The only one would be, of the 1.4 million dollars in that kind of product line, what would it represent in percentage of total sales for that kind of product in Manitoba? Quite small, wouldn't it?

MR. PARSONS: Yes, I would think it. . .

MR. MINAKER: I would hope the main objective is to make sure we make a profit, not necessarily try and keep the prices low. . .

MR. PARSONS: Right.

MR. MINAKER: . . . we're not a great percentage of the marketplace and . . .

MR. PARSONS: That's correct.

MR. MINAKER: The main objective -- as I said, look at your answer before to Mr. McGill.

MR. PARSONS: Look at both answers.

MR. CHAIRMAN: Okay, we can proceed to the next one -- oh, Mr. Evans.

MR. EVANS: Mr. Chairman, following along the lines of recent questions regarding

(MR. EVANS contd.)
pricing of the product, is it not correct that any company that is introducing a commodity into the marketplace can follow various avenues in order to gain acceptance and therefore to obtain sales, and one major way of course, is advertising the product so the consumer becomes aware of that product, which involves expenditures of money on the part of the company, of course, and the other, of course, is through being very competitive price-wise, so therefore, the question relates to market penetration. Is it not correct that the company has tended to, because it wants to be very careful with its expenditures, has tended to penetrate the market with reasonable prices rather than spending an awful lot of money on advertising?

MR. PARSONS: Well, as I said, the canned vegetable market is very competitive. Well, in a start-up period of course, to get the product out and get people using it, price is a thing that every housewife is very conscious of looking at, so when they first started out they have been selling it at slightly, maybe a cent a can lower than the competition. But there really isn't much leverage in the canned vegetable market, a cent or two cents a can is quite a discount. You're talking, a product that sells for 17 cents, well, if you're taking one cent off to be competitive, you're chopping five percent off your selling price, and of course, that's off the wholesale price. So they've had to use two methods; one going in at a price advantage so the housewives will take it off the shelf, and the other with a very limited budget, and they've had to choose very carefully where they put the dollar in this budget because of the -- well, we didn't have a big dollar to spend, and we've held them down very closely. So because of that they've had to use both methods of getting to the market, through our advertising by a price reduction and through advertising on a limited scale. We've also used every other avenue of advertising we can, and when there's food products industry and commerce put on Morden Fine Foods have always participated. This is at very low cost for the company, but has been very effective.

MR. EVANS: Right. What about the -- and maybe you answered this earlier, but I don't remember -- the percentage of sales outside of Manitoba now, compared with the amount that is sold within the province, and is there any trend, you know, are you increasing your percentage of sales beyond Manitoba's borders?

MR. PARSONS: We have increased the sales beyond Manitoba. I don't have that percentage of breakdown for sales within Manitoba and without. So I'll take that as notice and supply that for the next meeting of the committee if I might.

MR. EVANS: Yes, just one final question, on technological developments. Is there much progress being made in terms of utilizing a plastic type of container as opposed to a metal container -- and I know part of this depends on health requirements and it also depends on consumer acceptance. But as we all know, the price of a tin can is a very expensive item in this.

MR. PARSONS: Yes, the price of the tin can is four times the price of the product you get out of it. Morden Fine Foods hasn't done any experimenting in the plastic or other related fields. We've looked at it, and there's people doing a lot of research on this; but we don't have any facility or capability or do any research. When somebody comes up with a better product or a better method of containing the product then we will certainly take a look at it. The Japanese have shown vegetables put in plastic bags and sold. But nobody's come up with a good plastic container yet to replace the tin can.

MR. MINAKER: What about glass containers?

MR. PARSONS: Glass?

MR. MINAKER: Yes. Housewives of the past always used sealers. . .

MR. PARSONS: Well, of course, they're even more cost, that's why the can came out. It replaced the sealer.

MR. CHAIRMAN: Okay, we can proceed to the next one, Phoenix Data Limited.

MR. PARSONS: Again we are tabling the statement for Phoenix Data Limited for their year end, 31st March '73, which is the latest audited financial statement done by the Provincial Auditor. Our Equity Investment Account Information Sheet brings you up to date on our investments up to March '74. This is 100 percent owned by Manitoba Development Corporation.

Just to give the committee a run-down of what the Phoenix Data Corporation is. The Phoenix Data purchased a control data 6,500 computer, which was formerly owned and operated by Symbionics Systems Limited, at 550 Berry Street, Winnipeg. The computer is

(MR. PARSONS contd.)
still there and Phoenix Data own the building. The company was placed in voluntary receivership in December of 1970. At this point the Manitoba Development Corporation were not involved at any time. The computer and building and so on at that time were valued just over $3 million. We bid on it and purchased the total assets for $950,000 and we established a Crown Corporation, Phoenix Data Limited, to operate the computer. To bring you up to date on the operations, the operational statement as you see is 31st March, 1973. We have for the last ten months a total revenue of $835,000, and at the end of that 10-month period the computer company was breaking even, will show a small profit for 31st of March, 1974. The largest single customer is the Department of Education, we have an educational computer system which wasn't available in Manitoba. It's a new concept for the educational field. We have 25 terminals throughout Manitoba placed in high schools and it gives our Department of Education a chance to train students in high schools in computer uses and operations. This has been very successful. The use has been very high. That computer starts coming in from the schools at 7:30 in the morning and doesn't end till 6 - 6:30 at night. They have 24-hour usage if they wish to. It can feed into the computer and the computer is large enough it can handle all programs very quickly. The students are very enthusiastic about it, and they're getting the teachers in at 7:30 and keeping them till 6:30 at night. It's quite surprising. We know they're there, because the computer's on and it records the time that they start working. We've had excellent back-up information from the schools and the program -- they're all very enthusiastic about it, and it's worked out very well. I don't know whether there has been any expansion. We are pressing to expand this because it's been so successful with the Department of Education. I don't know if there's going to be much of an expansion for this next year.

We have also, or Phoenix Data has also done considerable work for the Manitoba Hydro that was formerly done through a computer firm in Toronto, also on a control data machine. We have the capability of processing some of their projects and simulations. We are doing that here in Manitoba on the Phoenix Data computer. We have also done some work with the-- or there has been some private firms come to us. We are doing work with the private sector. We hadn't pressed this too much because of our involvement with the Department of Education and keeping that program well on line for the fall, we hadn't gone or accepted too much in the private sector. We are able to take that on now. We have the capacity, we have the people to run the program, so we are accepting jobs from the private sector. We've had roughly $100,000 since we started that in September. So we have about $100, 000 revenue included in the $835, 000 I mentioned from the outside sector. We are getting more requests all the time, and we are taking on -- well, our revenue in the last month from the outside sector was over $20, 000. 00. We are accepting jobs now and doing them for them. They've had to go to either Toronto or Calgary for a lot of this type of work up until the time we supplied this facility. We're employing about 30 people full time out there, at an annual payroll of about $275, 000. 00. I think that concludes my opening remarks. If there's any questions I would . . .

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Yes, Mr. Chairman, through you to Mr. Parsons -- some of the questions I have, have been answered. I wonder, of the 30 people out there in full-time employment, what do they do?

MR. PARSONS: They run the computer.

MR. MINAKER: You mean it takes 30 people to run the computer?

MR. PARSONS: They run the computer. They're monitoring programs. They're doing program lay-outs. Yes, it takes that many people to run that operation.

MR. MINAKER: Because I would presume that . . .

MR. PARSONS: Mind you there's somebody there 24 hours a day. I don't know whether you're familiar with it. . .

MR. MINAKER: That takes up eight men.

MR. PARSONS: No, there's not that many. There's -- I don't know, how many people on it?

MR. . . . Operators? You have five operators. There is fifteen people. . .

MR. PARSONS: Yes. So operative development is 50 percent of our staff.

MR. MINAKER: Now, who are they providing this operative development for -- to the Manitoba Hydro and also to the Department of Education? Don't these people already have

(MR. MINAKER contd.)
programs, though?

MR. PARSONS: Once the program is set up then unless you're rearranging, there would be no more software development.

MR. MINAKER: That's what I'm getting at . . .

MR. PARSONS: It's a continuing program, the computer operation for soft wear development. For every customer that comes in you've got to develop their program in order to sell it. We're doing quite a bit of that now.

MR. MINAKER: How many programs would the Department of Education, in their 25 terminal operation, how many programs would they be involved in? Wouldn't they all work on the same basic programs if it's a course for a school, and once the programs have been established that would be the end of it as far as . . . ?

MR. PARSONS: Can you answer that? Mr. Shutiak is my assistant general manager, by the way, of the Manitoba Development Corporation, has been working very closely with them. So he's a. . . Can you answer that, Jim?

MR. CHAIRMAN: Will you come forward, please?

MR. SHUTIAK: Yes. You always have someone in a high school, whether he be a teacher or a student who's out to "bomb" the program. So they're always trying new things. They're getting hands-on experience with the machine. They're learning. They're always doing something, trying new things, trying to find out what the machine and the program are capable of. Maintenance of the program, as we find that the program can't do a certain thing that the educators would like it to do, there might be a minor modification required. So that program maintenance is a standard cost of computing. In fact, to use some of the terminology in the industry, they say that the hardwear costs, the costs to computers, are dropping drastically, but the cost of software, of the people involved to maintain the programs, is rising almost as fast as the cost of machines is dropping. That's just a cost of being in computers.

MR. MINAKER: How many of the 30 employees are programmers?

MR. SHUTIAK: They have about 15 people at Phoenix in soft wear development and maintenance.

MR. MINAKER: Mr. Chairman, I believe that we own a computer, do we not, at the Norquay Building, that was at one time being used by the private sector as well as our different departments. Is that still in existence?

MR. PARSONS: I can't answer that question. I don't know.

MR. MINAKER: If some 80 percent of the work that's being done by this particular company is done for Crown Corporations or government departments, why would we want to continue to maintain this company as such, if we own it 100 percent? Why wouldn't we make it a part of the operation of our departments?

MR. PARSONS: You could do that.

MR. MINAKER: Is there any advantage to be separate and on our own, if, in fact. . .

MR. PARSONS: I think there probably is when you're going to the private sector . . .

MR. MINAKER: If I can finish my question.

MR. PARSONS: I'm sorry.

MR. MINAKER: That if the majority of our time is taken up by the Department of Education and Manitoba Hydro and it appears that they could want to expand their program, why would we become interested in going after the private sector?

MR. PARSONS: Well, as I said, there's lots of time on the computer. We didn't go after the private sector as such until we had the educational program running efficiently, and the Hydro program, which was about up till last September or October. The private sector were coming to us for jobs that they were having to go to Toronto or Calgary to do so we started accepting them and introducing them into the system. They are using it now, we're supplying that service. We have lots of machine capacity, so when you can feed it in, you do. But our major undertaking was the educational program and we had to have that all on tap for 15th of September, 1973. It was a big program to get all tied into the schools and also supervising and overseeing how it went. That was a big undertaking and we weren't accepting any private business at that point.

MR. MINAKER: Next question, Mr. Chairman. This is a fast changing industry, I used to be in the computer industry, it changes every day; in fact, I think IBM's coming out

(MR. MINAKER contd.)
with a suitcase computer that's going to be better than their top unit they have now. What kind of life can we expect out of this particular unit as far as obsolescence goes, and are we covering this problem with the depreciation and amortization. . . ?

MR. PARSONS: The computer's being updated right throughout. I don't know that the computer's going to be obsolete if you were updating it with other peripheral equipment. It's still one of the fastest computers. If you know computers, 6,500 is a high speed scientific machine. We're still -- well the new IBM 37158, which is one of their largest -- we're still faster than that. So it's still a very remarkable piece of equipment.

MR. MINAKER: . . . you feel we are covering the costs of replacement in our accounting to a degree that will cover any unexpected replacement charges or. . . ?

MR. PARSONS: Well, we pay CDC quite a high maintenance cost every year. They are keeping it right up to date and well maintained. That's part of all computer operations. So I would say that we're covering it.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Yes, Mr. Chairman. I see that Mr. Parsons is a director, and there's one other name here that I can't quite make out. Can you give me the list of the. . .

MR. PARSONS: Well, there's only three directors. . .

MR. McGILL: Mr. Shutiak.

MR. PARSONS: Yes, Mr. Shutiak, myself. . .

MR. McGILL: How do you spell that?

MR. PARSONS: S-H-U-T-I-A-K. W. Parasiuk.

MR. McGILL: W. Parasiuk?

MR. PARSONS: Right, yes, and Jack McDonald. Actually the directors are . . .

MR. McGILL: And you're a director?

MR. PARSONS: Yes, I am, and president of the company. For this type of operation where we're very closely involved we just use our own staff personnel.

MR. McGILL: What directors fees are payable?

MR. PARSONS: None.

MR. McGILL: No directors fees?

MR. PARSONS: No.

MR. McGILL: Does that apply to other MDC operations?

MR. PARSONS: No.

MR. McGILL: There are directors' fees?

MR. PARSONS: Yes. I can give you that if you wish.

MR. McGILL: For Morden, yes.

MR. PARSONS: Morden Fine Foods are paid $50.00 a meeting.

MR. McGILL: A week?

MR. PARSONS: Fifty dollars per meeting.

MR. McGILL: Per meeting.

MR. PARSONS: The directors are, and I'm prepared to give you the directors names now, if you wish.

MR. McGILL: Yes, okay.

MR. PARSONS: I am a director and chairman of the Morden Fine Foods board. I don't get paid for meetings, by the way. Mr. Pat Bertram.

MR. McGILL: Of Winnipeg?

MR. PARSONS: Yes. Mr. Dave Harding.

MR. McGILL: Winnipeg?

MR. PARSONS: Yes. Mr. Bob MacNeill, Winnipeg.

MR. McGILL: Mc. . . ?

MR. PARSONS: MacNeill, N-E-I-L-L. Mrs. M. Schumacher, Winnipeg. Mr. T. Sumida, of Brandon. Dr. Charles Walkof.

MR. McGILL: of?

MR. PARSONS: I think he's Winnipeg -- (Interjection)-- Is he living in Morden still? --(Interjection)-- He was director of the Morden . . .

MR. McGILL: Yes.

MR. PARSONS: I don't know whether he still lives there.

MR. . . . . . He's with the Federal Government.

MR. PARSONS: That's why I was hesitating. I'm not sure where he's living. And Mr. Jack Wallace, Winnipeg; and Mr. Mel Whitley, Winnipeg. That is our Board of Directors. The board meets--I think last year, probably seven, eight times during the year. The board members are paid $50. 00 per meeting.

MR. CHAIRMAN: That, I believe, concludes the questions on the Phoenix Data, or is there another question?

MR. McGILL: Well, Mr. Chairman, I have a question about a previous one. What about Misawa Homes, what is the director fee for Misawa Homes?

MR. PARSONS: It's the same, $50. 00 a meeting.

MR. McGILL: Yes. Are they all $50. 00?

MR. PARSONS: Other than our Manitoba Development Corporation, yes, I think they are at this point.

MR. McGILL: Fifty a meeting.

MR. PARSONS: Yes, our Manitoba Development Corporation, of course, you had that in your. . .

MR. McGILL: Mr. Chairman, I see that you are looking at your watch in preparation for adjournment, and Mr. Parsons has at least a few of the four statements that are not yet received. I wonder if we could have those before we . . .

MR. PARSONS: Yes, we have one, which is Saunders, and we can distribute that before you leave.

MR. McGILL: Okay.

MR. CHAIRMAN: Okay.

MR. McGILL: One other question, Mr. Chairman. Will we receive during this series of meetings, a report from the Economic Committee Advisory Board?

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Well, it's not a board under my jurisdiction, I believe it's under the Minister of Industry's jurisdiction. I don't know what the plans are.

MR. McGILL: We did have it in the past, though?

MR. EVANS: Yes. That board has been set up by an OC. One of the terms of reference is that it make a report on general economic conditions and provide general information. And we would ask them to come before the committee, if that is the wish of the committee. We had some problem -- not a problem, but the fact is that the previous chairman resigned to take on a position full time in the Department of Agriculture, so we've appointed a new chairman, and there have been some new members added to the board and so on. So they're still in the process of getting organized, and consequently we would ask that we hear them among the last of the boards or corporations that will be heard by this committee. But we will bring them forth.

MR. McGILL: Yes. The timing is not important. As long as we have a report from them, and they're going to sit as before.

MR. CHAIRMAN: Well, I believe it has been the practice. I think if there are no further questions on the Phoenix Data Limited it would be a good time to stop at this particular time. We'll be starting the Tantalum Mining Corporation of Canada Limited next meeting, which will be set and indicated in the House. Committee rise.