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of the
Legislative Assembly of Manitoba

STANDING COMMITTEE

on

ECONOMIC DEVELOPMENT

33 Elizabeth II

Chairman
Mr. C. Santos
Constituency of Burrows



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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Second Legislature

Members, Constituencies and Political Affiliation

Name	Constituency	Party
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GRAHAM, Harry	Virden	PC
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HEMPHILL, Hon. Maureen	Logan	NDP
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NORDMAN, Rurik (Ric)	Assiniboia	PC
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PLOHMAN, Hon. John	Dauphin	NDP
RANSOM, A. Brian	Turtle Mountain	PC
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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Tuesday, 19 June, 1984

TIME — 10:00 a.m.

LOCATION — Room 255

CHAIRMAN — Mr. Santos (Burrows)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Mr. Kostyra, Hon. Mrs. Smith, and Hon. Mr. Storie Messrs. Ashton, Blake, Enns, Harapiak, Harper, Ransom, and Santos

APPEARING: Mr. Murray O. Harvey, Chairman of the Board

Mr. J. B. Sweeney, President and Chief Executive Officer

Mr. P. J. Demaré, Corporate Secretary and Director of Finance.

MATTERS UNDER DISCUSSION:

1982-83 Annual Report of Manitoba Forestry Resources Ltd. for the fiscal year ended September 30, 1983

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MR. CHAIRMAN: Please come to order. This committee has been convened in order to consider the report of the Manitoba Forestry Industries Ltd. for its 1982-1983 Annual Report. We shall begin with an opening remark from the Minister responsible.

HON. J. STORIE: Thank you, Mr. Chairman. Before I make any remarks, which will be brief in any case, I would like to introduce the personnel from Manfor here today to the committee.

On your immediate left, Mr. Chairman, is Mr. Murray Harvey, who is Chairman of the Manitoba Forestry Resources Ltd. Board. On his left is Mr. Jack Sweeney, who is the new Chief Executive Officer of Manfor, who joined us in February, I believe, of this year, and brings a good deal of knowledge and experience of the industry to Manfor. At the back is Mr. Paul Demaré, who is the Corporate Secretary and Director of Finance. These individuals will be glad to answer any questions you might have with respect to the 1982-83 Annual Report.

If I may, by way of opening comment, simply say that obviously, by the Financial Statement, '82-83 was a difficult year. It's not something that was not anticipated. I believe the chairman in the previous year estimated that the operating loss for '82-83 could approach or exceed \$20 million. I think obviously it was very close. There were a number of factors which made the fact that this was about to happen obvious.

The first was that, as everyone recognized, the forestry industry across Canada and internationally was

in the throes of a very depressed market, a very depressed financial situation. As an example, in the '82-83 year that we are reviewing, pulp prices were approximately 26.8 percent below the preceding reporting period, paper prices were 10 percent below the preceding period and lumber was 10 percent below; on top of that, obviously, low prices and prices which had a very dramatic negative impact on the financial position of Manfor.

It is also the case that markets were extremely soft. It was difficult to market any product and, over the year, Manfor had a number of shutdowns and of course this contributes to the situation we're in. The important thing to note is that Manfor is not the exception in the industry itself.

Canfor in the '82-83 period, which is a company which competes in many respects with Manfor, lost \$80 million. MacMillan Bloedel, I understand, was in severe financial straits as well, and they are an industry giant. I have heard that they had sold their head office at one point. The industry was in trouble and, obviously, Manfor is part of the industry and could not escape those effects.

I could go into the history of Manfor in the preceding years, which helped to contribute to the difficult times they experienced in 1981-82-83. As everyone here knows, there were continuing talks of the sale of Manfor, the questions being raised about its viability and its long-term future, all of which had an impact not only on the financing of major capital projects of Manfor - if I have an opportunity, I may be putting on the record some of the board minutes which reflect the concern of the board at that time about the lack of serious desire on the part of the shareholder, the Provincial Government, to make the changes necessary to provide the capital that would assist the company. So we went into the last two years and the last year without having undergone the major kind of retrofits, upgrading that would have made a difference.

I suppose the most important thing is the question of what's going to become of Manfor, and the Member for Turtle Mountain raised that question in the House. I suppose the answer is that the projections for the coming year are that Manfor will significantly reduce their operating loss. It is my opinion, at this point, that the operating loss will see a decrease by 50 percent and moving down to somewhere in the neighbourhood of \$12 million, \$13 million. The year after that, we'll see the elimination of the operating loss and there are a number of reasons for that.

First of all, there has been some increase in the market conditions with respect to both lumber, pulp and paper. There has also been some changes with respect to the structuring of Manfor, the organization. Most particularly, we now have representatives of the workers of the two major unions on the Manfor Board of Directors. As a result of this, contract negotiations have been successful.

In the case of the International Woodworkers, they are complete and nearing completion with the pulp

workers. Both of those contracts, I think, reflect the understanding that exists between labour and management at the Manfor complex on the need to struggle together to make the upgrading, the retrofit, make it possible for Manfor to be a viable, competitive, international company that supports Manitoba's economy and the economy of The Pas area as well.

So we are doing what is necessary to change the circumstances, and the major upgrading, the \$40 million upgrading is one of those things. The managerial human resources side of it is the other part of it which are going to make a difference, and we're confident of that. I think that's the important thing that has to be noted in terms of the future for Manfor.

I think that's sufficient for introduction and perhaps I could ask the Chairman of the Board, Mr. Murray Harvey, to make his opening remarks as well.

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: Thank you, Mr. Chairman. Well, I think it is traditional to say a few words about the last year, the year that is under review. I would like to do that now and then give you a bit of a projection into the current year.

As in the previous year, market conditions remained abnormally poor during the year under review. This resulted in the continued underutilization of our productive capacity and resources. Lumber prices rose steadily during the first three-quarters of the fiscal year, but dropped dramatically by year end.

Despite the increased average prices over the year, Manfor's outdated and inefficient saw mill equipment prevented the division from achieving profitable levels. The lumber division continued throughout the year on a one-shift operation in order to minimize as much as possible the effects of outmoded equipment and poor markets. The low demand, along with shutdowns of the pulp mill, necessitated shutdowns in the sawmill during the year, totalling approximately six weeks.

The demand for unbleached pulp and paper continued to be a disappointment throughout the year. With a marginal market base, the effect of a further decline in average selling prices of 9.5 percent for paper products and over 25 percent for pulp had a disastrous impact on the financial performance of the company. Of a total production capacity of approximately 140,000 tons, markets restricted our sales to 124,000 tons. This resulted in an 11 percent non-utilization of production time. In order to minimize the impact on employees, major maintenance activities normally contracted out were carried out in-house and were scheduled for the shutdown periods.

On April 1, 1983, the long-term debt outstanding to the province was converted to equity shares. At the same time, the capital losses incurred by Churchill Forest Industries and the other predecessor companies of approximately \$50 million were removed from Manfor's balance sheet. This was a major requirement in attempting to normalize the financial affairs of Manfor.

The interest relief from the recapitalization was only available for six months and was more than offset by the requirement to devalue our log inventory due to low market values. I should probably tell you here that when the market price deteriorates, with the system

we use for evaluating our inventory, gives us a kind of a double whammy as we evaluate our log inventory at the lower end of cost, or the net realizable value, whichever is the lower figure. So if your market price drops off then the value of your inventory will drop dramatically. It will come back again when the price goes up, but it makes quite a difference in your balance sheet at year end, what you will see in the company's balance sheet.

Manfor's financial performance was not incomparable to most companies in the industry. Although sale prices were lower than the previous year, sales rose slightly from \$62,700,000 to \$64,800,000 due to increased volumes from sale of inventories. Production costs increased due primarily to previously contracted wage agreements and the deficit increased due to under utilization of the mill. The year-end result was an operating loss of \$16,075,000 before interest and depreciation.

Under the current year - that's the conditions that exist now - market conditions for lumber to date have remained virtually unchanged for the comparable period last year. We did get a bump at the very beginning of the year and it looked like lumber markets were coming back but they haven't and the price has now dropped down again.

A lot of our product, as I told you last year, goes to the States and it goes into housing. Housing starts that were predicted did not materialize probably due to the interest rates, we believe, and that has kind of filled the pipeline for lumber.

Pulp and paper demand has improved significantly. As a result, no downtime has been experienced, nor is it anticipated during the balance of the year. Selling prices have matched the increasing demand with paper prices approximately 10 percent higher than the previous year and pulp showing an improvement of approximately 25 percent. In effect, this returns prices to the 1981 levels. The net loss for the year to date is approximately one-half the loss for the corresponding period last year.

Manfor works on 13 four-week periods. We are now at the end of Period Nine. If the trend continues, it is anticipated that the operating loss for the year will be approximately \$6 million and, after depreciation, a net loss of approximately \$12 million.

The modernization program has been initiated, and is anticipated to be completed by early 1985. The program for the saw mill will allow the production of lumber at substantially reduced manufacturing costs from our current and past experience. In the pulp and paper mill, the capital expenditure will allow the upgraded facilities to produce unbleached kraft paper of a quality equal or better than the best available in the competitive North American market.

That's a brief description of last year and the current year, Mr. Chairman. If they have any questions, I'd be glad to answer them.

MR. CHAIRMAN: The report shall be considered in its entirety.

Mr. Ransom.

MR. B. RANSOM: Thank you, Mr. Chairman. First of all, let me welcome Mr. Sweeney to his first appearance

before the committee, and we wish him well in his capacity as president and chief executive officer.

As we work our way through this glamorous annual report, Mr. Chairman, I'll have a number of issues to touch upon. I'm not sure that we'll go strictly page-by-page but, when we're finished, we'll probably just pass the report.

On the first page, the parchment page inside the cover, there is just a marvellous little piece of writing, a little piece of jargon there, I would say, Mr. Chairman. I'd like to know what some of it means. It talks about: "Operating as an autonomous and integrated corporate unit incorporating and achieving shareholder objectives as an integral part of delivery and with policy direction and leadership from a competent, innovative and experienced Board of Directors." What does that mean?

MR. M. HARVEY: Are you addressing me?

MR. B. RANSOM: Anyone who can answer that.

MR. CHAIRMAN: Who is to answer this question?

MR. M. HARVEY: I will answer the question.

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: Mr. Chairman, through you to Mr. Ransom, the phrase simply means this. First, I should tell you what this whole thing is, since you obviously don't know. It's a philosophy statement. A philosophy statement is a statement of intent by a corporation that, over the long haul, they can base their corporate decisions on.

It is, as you said, fairly high and, if you like, motherhood kinds of writing, but it is an attempt to direct the corporation toward some ambitious but obtainable goals. The statement you read, what we're trying to do is to point out that the company is autonomous in the sense that it must function in a marketplace where autonomy is a major requirement. It must function in the marketplace that is peopled by pulp and paper companies.

It's an integrated unit. We found that the tendency at The Pas was to deal with the company in terms of its lumber division, of its woodlands division, and its pulp and paper division. If you do that in a company, you can initiate competitive forces within the company itself.

What we're trying to get people to see is that the forestry complex - and we're addressing employees here mainly - is an integrated operation. The success or failure of one or the other does not necessarily mean that the whole thing can be written off. If the shareholder wants a lumber mill and a pulp mill to run, then the whole thing has to work, not part of it.

That leads into another part of the statement which talks about shareholder objectives. Any company has to meet whatever it is the shareholder wants it to meet, otherwise it won't survive. That may be, and most normally is, return on investment.

As far as direction and control from a competent, innovative, and experienced board of directors - of course, you have to have that - and you have to take steps for that to happen as well, it just doesn't happen.

So, in answering your question, I'm merely saying to you that we think it's important that Manfor, as a company, have a philosophy; that it publish that philosophy so that the public, the suppliers, the customers, the employees, and the shareholders have someplace to look to see what the company stands for.

Philosophy statements, I agree with you, tend to be of that nature, but nevertheless I consider them to be important.

MR. B. RANSOM: What exactly does the term autonomous mean, autonomous from whom, from what?

MR. M. HARVEY: Mr. Chairman, through you to Mr. Ransom. In the context that it's meant here it means having enough autonomy in the managerial sense to function as a pulp and paper company. It doesn't mean autonomy from the shareholder, no company has autonomy from its shareholder, but it does mean that if you are a commercial enterprise then you must have a level of autonomy that's sufficient to allow you to operate commercially.

MR. B. RANSOM: Can the Minister give us a statement of what the shareholders' objectives are for the corporation?

MR. CHAIRMAN: The Honourable Minister.

HON. J. STORIE: Mr. Chairman, I think that the objectives are fairly straightforward. I think Mr. Harvey has alluded to them. Basically, the objectives are, over the long range, to make Manfor a financially viable corporation. The question of viability is one, I guess, which is very much related or very much determined through the eyes of the beholder. I think for the Provincial Government, the shareholders point of view, there are two separate issues, separate yet related issues.

One is the question of financial success of the company, returning Manfor to a profitable financial position is one of the goals, at the same time recognizing that Manfor is a provincial Crown corporation and should, in many respects, exemplify good corporate citizenship and do those things which both make it possible for it to succeed as an international company in a difficult industry and, at the same time, achieve in its own internal workings a good relationship with its employees and its surrounding community.

Certainly, a prime mover with the board of directors and through the government to the board of directors is the objective of making Manfor a successful forest industry company with a good financial record. As I indicated in my earlier remarks, the prospects for the next couple of years, particularly when the upgrading is completed, are taking us in that direction.

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: Yes, Mr. Ransom, I should add to that. This particular statement was not developed in isolation of the shareholder. What actually happened is we questioned the shareholder, the Minister

responsible for the company at the time, Mr. Parasiuk, very carefully on what he expected us to accomplish. We asked him about commercial viability, about limiting financial liability, about industrial relations. What did he expect us to do in these areas? Then we tried to put those thoughts into this statement that you see before you. So it was not developed in isolation by the company.

It was an attempt by the company to capture what it was that we were supposed to do with this mill over the next 10 years by conversations with the Minister responsible at the time. That is where all of these statements came from because we questioned him on specific issues, particularly relating to commercial viability and what kind of marketing program, what kind of approach do we take to this. That's where it came from. I should have mentioned that earlier.

MR. B. RANSOM: I am glad Mr. Harvey clarified that, Mr. Chairman, because earlier he said that this was a place to which the shareholder could look for a statement of the objectives of the company. It seemed to me that the situation was backwards in that case. He has now clarified his earlier statement. I thank him for that.

I am interested in the Minister's view of what he considers to be financial viability, as one term he used, and a profitable financial position is another term that he used. Can he be a little more specific? Is he talking about showing a return to the shareholder, or is he talking about having the financial report show a profit?

HON. J. STORIE: Mr. Chairman, I suppose in some respects, a little bit of both is the appropriate answer. Obviously, the government's undertaking in the past year-and-a-half, their negotiations with the Federal Government, the commitment to upgrading is an indication that we take seriously the question of viability. There was no point, in my opinion, in continuing the operations at Manfor without moving to correct some of the deficiencies that exist in that plant.

What we have done is to use a federal program in some respects, but to utilize resources that were available to make sure that both the sawmill and the pulp and paper operations could be returned to a sound footing. Obviously, the hope is and the belief is that, when both of those projects are completed, the financial statement of Manfor will show a profit and a return to the province. That's basically, I think, the direction that we, as the shareholder, have given to the corporation.

MR. B. RANSOM: Mr. Chairman, the government's involvement as the shareholder with an equity position, I assume, could eventually lead to the point where the company would show a profit, but there would not necessarily be any return to the shareholder. Has the government some position with respect to the extent of refinancing, the extent of new financing, the amount of money that they are prepared to put into the corporation?

HON. J. STORIE: Well, Mr. Chairman, that's a difficult question to answer. I know that the previous government wrestled with that question too. I don't believe that they looked as their only option the question of offering up Manfor for sale.

Obviously, there has to be a serious analysis of whether there is any long-term potential. I think that we recognized at this time that there were a number of options before the government in terms of the upgrading of Manfor. The option that was chosen was, in some respects, a medium-term solution. There is always the potential for additional investment, if it is deemed necessary and desirable from the shareholder's point of view to continue the upgrading to turn the Manfor operations into a bleached pulp operation so that they would produce bleached paper and bleached pulp. That is yet another option which will have to be explored.

In terms of the medium term, we believe that the solution we have chosen, the option we have chosen, is one that will turn Manfor around quickly and will give us that breathing time to evaluate future markets, the future potential for unbleached, kraft pulp and paper. So the answer obviously to that question won't be answered until some future date when a decision has to be made with respect to continuing the upgrading process, to changing the operations. At that time, you would have to assess the market potential for the particular product you were considering developing.

MR. B. RANSOM: In Mr. Harvey's statement in the annual report, he says: "The Manfor strategy consists of what might be called the three "R's" of corporate recovery; retrofit, reorganize and recapitalize." Perhaps he could deal with each of those in a little bit of detail.

It was my understanding, based on some work that had been done in previous years, that there would be a very large investment required in the corporation to make it viable in the long term. It came certainly as somewhat of a surprise to me to learn that a \$40 million investment was judged to be sufficient to turn around the financial viability of the corporation, when previously we have been looking at anywhere up to 10 times that amount of investment.

Perhaps he could give us an indication of exactly what is being done by way of this retrofit, as he calls it. Is there a report available that backgrounds that? Were there consultants involved in making these recommendations, or is this internal management? It would be useful perhaps to have an opportunity just to see some of that kind of information.

With respect to reorganizing, I gather from some of the comments that have been made that it's judged that previous management was not as sound as it might have been. I can tell Mr. Harvey and the Minister, Mr. Sweeney, that's certainly a familiar theme that we've been hearing around this table as the management of McKenzie Seeds has come before the committee. They've said the previous management weren't very sound and this new management is really going to help turn things around. The same with Flyer when they came before the committee; they said previous management was weak and we're going to be able to change that and turn it around. So this is certainly not a new theme at all. I hope they're correct.

Thirdly, with respect to recapitalization I would like to know just how significant is that recapitalization to the financial future of the company. It seems to me that it doesn't really change it all that much. The interest costs that the company has been incurring have really not

been that high. So if Mr. Harvey would comment on those three items I would appreciate it.

MR. CHAIRMAN: Before Mr. Harvey makes his comments the Minister wants to make a statement.

HON. J. STORIE: Mr. Chairman, if I might just comment briefly on some of the initial comments from the Member for Turtle Mountain with respect to the retrofit option. Certainly in going over some of the material that was passed on to me, with respect to the options that were being reviewed by the previous government, it is not apparent to me that they seriously considered any other option. I think that there was a particular frame of reference for the previous administration when they were considering that option; they were considering and continued to consider through '79, and '80, and '81 the option of selling Manfor.

Of course, the option that would be most acceptable to a major integrated forestry operation that would consider buying Manfor would be something that would be most profitable in the long run for them. I don't believe that the previous government ever seriously considered an upgrading, a change of operation in The Pas from the perspective of a Crown corporation and something that would be in the best interest, not of a purchaser, or a potential purchase, but in the interests of the province, in the interests of the shareholder at Manfor. Certainly all of the information that I've reviewed leads me to that conclusion.

The second question with respect to management and the question of whether a change in management, in staff, is going to make a significant difference. The Board of Directors in 1980 were considering resigning because they could get no direction from the shareholder. The board minutes, Monday, December 8th, 1980, the board reiterated its concern that Manfor was running on a day-to-day basis with major capital projects being delayed. If the company is not sold the delays will have a serious effect on profitability.

It goes on, Mr. Chairman, continues, board meeting, after board meeting indicating the serious problems that were being created because the shareholder gave it no direction. The options they were considering were not in the best interests of the shareholder in my opinion; they were in the best interests of those potential purchasers of the Manfor complex. The minutes are replete with references by board members, by the board chairman, to the lack, the frustration that they were experiencing as a result of the inability, the unwillingness of the shareholder to make decisions that were in the best interests of the company.

Mr. Chairman, on Tuesday, April 14th, 1981 the board minutes noted that the sawmill project, 2.4 million had been approved in the preceding year but implementation was being held up due to the proposed sale of Manfor. That there were other potential projects depending on the sale of Manfor as well.

So, you know, the Member for Turtle Mountain was commenting on the corporate philosophy, the corporate statement. Obviously the corporation has received the statement of objectives as far as the shareholder is concerned and, that is, to do those things that are necessary to improve the operations of Manfor so that they will produce a successful financial statement and,

at the same time, keeping in mind the other objectives of a Crown corporation.

But, in terms of both management and the retrofit options, I think the record is fairly clear. There was no commitment on the part of the previous government to the operations at Manfor; the Board of Directors' meetings, as I've indicated, are indicative of the frustration that the then board felt because of that lack and obviously the situation Manfor finds itself in are a result of the differing philosophy and objectives of the two governments.

MR. B. RANSOM: Mr. Chairman, I understand the Minister's sensitivity over the situation when the company has been losing the kind of money it has. It's a theme, of course, that's run through, and continues to run through, the government's debate with respect to any of these corporations or virtually anything that's happened in Manitoba, it's always blamed on the previous government. I pointed out to the members last night in debate that, perhaps the Minister wasn't there, that the government is now closer to the next election than they are to the last election. They're into the second half of their mandate even if they choose to go the full five years. Perhaps the Minister should turn around and look ahead as to what's happening; look at the information that we have in front of us.

I asked for some information about the proposed retrofit; I never got an answer. I get some kind of lecture about the Minister's interpretation about what's gone on in the past. I want to know whether it's an internal decision; whether there is a consultant's report that's been done by outside people to know. So if we can have an answer to that, Mr. Chairman, it would be appreciated.

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: Yes, Mr. Ransom, I'll try to deal with the three of them that you mentioned one at a time. With respect to the retrofit, there was an extensive Federal-Provincial study done; the first phase was a look at options, I think, there were five options and the top end was the top end that you speak about - \$250 million bleach plant. The bottom end was the \$40 million improvement in the current product. There was a Phase II done, once the selection had been made, involving the actual refining of the option chosen.

To get back to the option chosen, at the time the options were arrayed, the market seemed to indicate that the most expensive venture may still have to come but it was not the best venture at this time, that there appeared to be a spot in the unbleached market, one that Manfor had filled in earlier years, basically stress kraft paper. That market is shrinking at about 2 percent per year, but there are people getting out of it at about the rate of 6 percent capacity per year.

What was required for us to get into it and compete was to have a product that would be as good as, if not better than St. Regis, because they are our main competitor. So the \$40 million option, while it could easily come as a surprise if you move from a bleach plant down the road towards the improving of a current product, it was, in the minds of all concerned, and the board, the best option at that time. There were no

signals that said that moving into the bleach market was a good idea because there were a lot of people doing just that.

With respect to the availability of the reports, the reports were commissioned by the Provincial Government and cost-shared by the Federal Government. They came to the board in terms of presenting some options to the board. We then recommended to the shareholder which one we thought was the most likely. We then commissioned two other consultants. In the sawmill's case it was the same fellow that had done the - I think in both cases it was the same consultants - a fellow by the name of Sagan in the sawmill side and Sandwell from the coast on the pulp mill side. They have now done Phase II, which is the refining of the options.

The management issue that you touched on, we are talking about reorganization. I don't think it's axiomatic that reorganization means there has been poor management unless you assume that everything is the best it could ever be. I think what happened in the course of time with Manfor, Mr. Storie touched upon keeping in touch with the shareholder. The management stream, in my view, goes from shareholder down to the supervisor. That's where the management is in a corporation.

I think, due to a number of circumstances, what had happened at The Pas was that there at one time was a general manager at The Pas who kind of pulled things together. He left and was not replaced, but the structure was not altered to make, I think, enough of an adjustment for that. In my view, I thought that there should be something of a pulling together at The Pas itself so that there was an integrated complex and a management team to deal with the complex in an integrated way.

Shortly after I took office, I requested that a study be done as well that took a look at the organization of the company with respect to industry norms, how the mills work and where our head office is located, and what in their view - they were a pulp and paper consultant - might be in the best interests of Manfor with respect to reorganizing the company. I didn't at that time suggest that there was anything particularly wrong with the management of the company. In fact, I thought they had done a yeoman's service in the situation that they found themselves in, but I felt that there could be some things better done, particularly with respect to where the chief executive officer would be located, how that integration could take place and some of the divisions at The Pas.

So we got a report back from a company called Simons, and they indicated that there could be some gains made by integrating some of the administration at The Pas, creating a more comprehensive department of human resources out of the existing industrial relations section and locating the chief executive officer in The Pas. They reserved judgment on where the marketing arm should be; although they indicated that Manfor needed to create a marketing division, that it didn't have a comprehensive way of dealing in the market it was in with the marketing problem.

So that is basically what we are doing with respect to the reorganization is trying to take those kinds of things and put them into some kind of a focus and some kind of an organization that brings the company

into the proper attitude with the environment it's in really.

With respect to recapitalization, I think it does have a significant effect on the company. The company was financed, rightly or wrongly, with debt finance and created an interest load that I believe is something like two-and-a-half times the industry average. I think if you're going to succeed in an industry, you have to pay particular attention to the kind of costs that your competitors are experiencing and a two-and-a-half times debt load didn't seem to be right to me.

Now, as I say, when it was done, if you look back in that particular period of time, the company was doing well at that time, probably at the top of a cycle and it looked like, I would suspect, that it could carry that thing, that kind of a load, but then it's a cyclical industry. Over the course of time it paid something like \$30 million in interest. If that had been equity financing, then it would have been a case of whether or not a dividend was due and that changes the operational picture considerably for the company. That recapitalization, in my view, needed to be changed to some form of share or equity financing so we could become more in line with the industry with respect to the kind of load we might be able to carry.

There were a couple of things on the balance sheet as well that really belonged, in my view, to the past. If the purpose in creating Manfor was to take over the mill and run it, then I don't think that anyone would like to take some of those debts with them and saddle the new company with it. So some of that stuff was removed as well, particularly the \$50 million that was on the books as a capital deficit. That might have been valuable had you had a tax situation to deal with, but, of course, Manfor doesn't.

I think that has been borne out by the people who did the study. When they put their 10-year-decision model together, they said this will work, but the balance sheet has to be cleaned up first. So you have to do these kinds of things to get yourself at least a fighting chance. If you look at the 10-year experience, I don't think the company could make it with that kind of a load; they just couldn't do it.

MR. B. RANSOM: I thank Mr. Harvey for that answer, a rather comprehensive answer.

Just further on the interest expense, then, in '83, in the year under consideration, of course, there was some reduction. In '84, presumably bearing a full interest load, there was still under \$5 million of interest. What would Mr. Harvey expect that the interest charges would be in the present year, approximately?

MR. M. HARVEY: Less than \$50,000, and that would be on the operating line.

MR. CHAIRMAN: Mr. Ransom.

MR. B. RANSOM: Mr. Chairman, could Mr. Harvey tell us then when the extensive federal-provincial study to which he referred was started, and when it was completed?

MR. M. HARVEY: Mr. Chairman, it was started before I arrived on the scene - I think probably January of

1982, Paul tells me - and it was completed to the option stage, spring of 1983. The decision was taken in the fall of 1983, as you know.

MR. B. RANSOM: I have a question for Mr. Sweeney. He makes an interesting statement that we have only opened the door to the potential use of the capacity of the renewable resource entrusted to Manfor by the people of Manitoba.

Now that is a much more optimistic type of statement than has been forthcoming for some period of time. It surely has to relate to the resource base itself. Would Mr. Sweeney just elaborate somewhat on that statement?

MR. CHAIRMAN: Mr. Sweeney.

MR. J. SWEENEY: Mr. Ransom, in opening my comment, I would like to thank you for your kind words when this meeting opened. While I have a data sheet here, I think you realize that I am a relatively new boy, however, I have a long memory.

We have 40,000 miles of wood limits, of which half is lake. We have a potential sustainable annual cut of soft wood which is very close to 1 million cords per year. We are using currently 350,000 cords a year.

When I made the statement that we have only opened the door, my thought and my conviction, Sir, is that this operation, within the 10-year period, will be studying a second paper machine. I am not convinced today that it will be a pulp machine, a bleach pulp machine, I have other options in mind.

It follows that if we were to double the capacity of that paper mill we would still have ample forest resource to support even a third machine, although I don't see it. I don't see the third machine before the turn of the century, but I do see a second machine being seriously studied within the next 10 years and I should hope that I will be around to turn the first sod.

To double the capacity of the mill, be it in a bleached product which I think it must be, but not necessarily bleached pulp - will obviously cut the overhead charges per ton, the fixed costs, by half. That, in itself, would be about \$30 multiplied by 250,000 tons per year, or \$7.5 million.

My statement as an incoming President was intended to be positive. I know that you are aware of my positive feeling toward the future of The Pas. It is important that The Pas develop a track record, which brings me back to the \$40 million, \$50 million retrofit that we are now undertaking. Once a track record has been established, I see this government embarking on the studies to a second machine. Alternatively, I see this government searching out a partner who will undertake to build a second machine, and there are many other options. The most important option of all that I see is that we maintain the momentum, the viability, the track record starting now of the operations at The Pas.

I trust I have answered your question in a general way, remembering that while I am a new boy on the scene I am reasonably familiar with the operations of that mill.

MR. B. RANSOM: Two things, Mr. Chairman, first of all to Mr. Harvey, to the Minister, can they provide us with a copy of that federal-provincial study.

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: I would have to defer to the Minister because we didn't do it, it was a government study. I don't know of any reason why it couldn't be provided. Mr. Minister.

HON. J. STORIE: I think the answer has been given a number of times that there was no final bound report. There is a series of options, as the Chairman has indicated. What I have seen is a series of working papers that were federal-provincial in nature, outlining a variety of technical matters and, I suppose, competitive matters with respect to the markets, the costs and so forth that Manfor might incur.

I think that questions that were raised to the previous Minister and to myself have been dealt with in the following manner: the papers to make them public would require, first, the concurrence of the Federal Government, but also it might have a potentially damaging effect on Manfor because of the various cost components that were considered, both in terms of the cost of production and marketing matters that were discussed in the various papers. So that makes it difficult for one to say definitively whether there would be any advantage in discussing that, or whether there might be some damaging impact on the company in the long term, which obviously neither one of us would want. So that's how it's been answered.

The decision has been made. The member alluded to the fact that we were halfway through our administration, and that the problem still exists at Manfor. I would conclude by saying that the opposition, and the member who asked the question was a member of the Treasury Board at the time, spent four years. During that four years, there was no commitment, there was no direction and there was no decision. The effects on Manfor have been devastating. The effects on the morale at the plant have been devastating, and the effects on the outlying communities have been not particularly positive.

In the two-and-a-half years that we have been in government, as the Chairman indicated, the decision to undertake the study was taken almost immediately. A decision was made virtually as soon as the information had been gathered and the options were presented. A further decision was made to go ahead with it, and the results, I think, I've already discussed. We're looking at a much improved picture for the following year, and a further significant improvement in the year after that. I guess the proof is in the pudding.

MR. M. HARVEY: Mr. Ransom, in offering to let that report go, I wasn't aware it would be made public. There probably is some commercially sensitive information of a nature that the company would have to review, particularly with respect to costs.

MR. CHAIRMAN: Mr. Ransom.

MR. B. RANSOM: I must say, Mr. Harvey is very quick to recover, Mr. Chairman, because when I raised the question he started out by saying, he didn't really think there was any reason why it shouldn't be released. The Minister came back with the answer that it couldn't be

released and, as the Chairman should I guess, he's now come to the support of the Minister.

MR. M. HARVEY: I've come to the support of the company. I didn't realize that releasing it to you meant it was to go to the public, but now I have to think about commercial confidentiality.

MR. B. RANSOM: I suppose that's a matter of definition, as to whether one considers that public or not. If the Chairman of the Board is saying that this sort of information could be released to the members of the Legislature for their own use, then that's the only intention that I had for the information to begin with, Mr. Chairman. Because we are interested in the future of Manfor as well, despite all the protestation of the Minister.

The members on this side of the House are interested in the future of Manfor as well. We're interested in the position that the taxpayers of Manitoba find themselves in with the kind of loss that we're facing. I think that Mr. Harvey and Mr. Sweeney can tell from the questions that are being asked that we are interested in finding out where management is going with the company now and what they see as the bright spots for the future.

I was very interested in Mr. Sweeney's comments about the possibility of a doubling of the capacity because that, as I recall, is one of the options that was being most seriously pursued by our government, was to try and make that jump to that possibility of the expansion of the operation. That was under active consideration, and it was the Federal Government that was dragging their feet during that period of negotiation, not the Provincial Government. The Provincial Government was ready to act.

The reason that some short-term decision wasn't taken in the interim was that we were prepared to act on the longer-term viability of the corporation with a private sector company. It was the Federal Government, under Mr. De Bane, who refused to make a positive decision on it and who refused to give us any reason for why he would not make a positive decision.

So I don't wish to get into a lengthy debate about the history of it, Mr. Chairman, but I absolutely have to put that comment on the record as to where the Provincial Government stood. I am very pleased to see this statement by Mr. Sweeney which indicates to me that the direction, the vision that we had for the company is not that different from the one that Mr. Sweeney is now outlining to us as a possibility for the future.

HON. J. STORIE: Mr. Chairman, I wouldn't like the somewhat pious and hollow comments by the Member for Turtle Mountain to remain on the record. Over the four years, there was no commitment. The commitment was and the attempt was to sell Manfor to another company.

The Member for Turtle Mountain may be correct in that the Federal Government had some concerns about the particular approach that was being taken and the costs that were involved and whether the Federal Government was prepared, as they did in the subsequent agreement with this government, to put money into the upgrading projects. But, Mr. Chairman,

the difference is that the commitment was made to the Crown corporation. The analysis that was done, the money that is being spent is in the best interests of the shareholder, and not some potential purchaser of the complex.

Mr. Chairman, if I might add that the people in The Pas, the people who work at that complex understand that the motivation of this government is twofold. That is to make Manfor a viable enterprise, and to maintain it in some sense as an enterprise that the community can be proud of.

MR. CHAIRMAN: The Member for La Verendrye.

MR. R. BANMAN: Thank you, Mr. Speaker. I cannot allow the Minister to, every time someone is trying to get some information and trying to find out exactly what the government's intention is or how they've arrived at the \$40-million retrofit, get up and use that as trying to blame someone else for the problems that are down there right now.

The Minister has been in a government that has had control of this corporation now for the last two-and-a-half years. We're looking at a record deficit here. We are talking about a \$40 million retrofit which we find out today is in a market which is shrinking at a rate of 2 percent per annum, and other people are getting out at a rate of 6 percent per annum. So, Mr. Chairman, the question that has to be addressed and one which the previous government was addressing and hopefully in listening to the new president, this government will address, and that is the long-term viability.

It's not a \$40 million retrofit into a business that's shrinking. That's no long-term future for this particular plant. What the Member for Turtle Mountain has said and what I reiterate is that we were having serious problems in dealing with the Federal Government to attract the funds for retrofitting old plants. We were trying to get the same kind of money they were getting in Quebec.

Mr. Speaker, there was an upgrading program, because of different restrictions that were being put on by the U.S. Government. The Federal Government had established a program and was spending millions, hundreds of millions of dollars in Quebec. Mr. Chairman, that is the kind of money we were after. We, at the time, were not getting that kind of co-operation from the Federal Government. It was the previous government's intention, and I hope it is this government's intention, to see the long-term viability of this plant. Even though \$40 million is a lot of money to spend, we all know around this table if you've looked at that complex that really, as far as making that plant a long-term viable operation to provide employment in Manitoba and to benefit the people of Manitoba that are employed up there, that is a stopgap measure, and will not in the final analysis deal with the major problem that's up there right now.

The other point I want to make, I was happy to hear today the new president indicate that there is a sufficient supply of wood to warrant another plant. Mr. Speaker, it was, throughout this whole exercise in dealing with Manfor, one of the chief criticisms of that plant in the first place was that there was not enough wood there to support the existing operation. We have heard today that there is.

So given those factors, Mr. Chairman, I want to tell the Minister that maybe he should start looking towards the future, instead of trying to hang the responsibility that he has been charged with on somebody else. It's time he crawled out of his shell, and looked into the future as to what's going to happen out there.

Let's not hear the government blaming everybody else for the problems at Flyer, for the problems at McKenzie Seeds, for the problems at Manfor. It's always somebody else's fault. It is time they accepted some responsibility for having been government two-and-a-half years and deal with some of these issues, rather than pointing back and trying to blame other people for their own incompetence.

HON. J. STORIE: Mr. Chairman, I'm not blaming anyone for incompetence in the previous administration. The record is clear. There was incompetence. It's not a question of blame; it's fact. The Member for La Verendrye wants to suggest this government should take the long range and take a positive view. Mr. Chairman, what I am trying to do is put on the record a correction of the Member for Turtle Mountain's interpretation of what the previous administration did.

What I said was that their approach to solving Manfor's problems was not in the best interests of the shareholder. It may have solved Manfor's problems to sell it, and what they were looking for was some federal assistance to make it a potentially viable operation to make that possible.

We took a different approach, a different point of view with more commitment to the complex there as a Crown corporation and have gone ahead. But it is incorrect for the Member for La Verendrye to suggest the government has not made some positive, progressive steps in terms of Manfor. I have just pointed out that, in two-and-a-half years, a study was done. A decision was made to go ahead. The funds were committed for Manfor; the commitment is there . . .

MR. R. BANMAN: You've got a \$24 million loss.

MR. G. FILMON: And that's competent management.

HON. J. STORIE: Mr. Chairman, they're mumbling from their seats about competent management. Mr. Chairman, I read this morning some of the minutes from the boards of directors' meetings when they were in government. There was no competent management, because management consists of making decisions. It consists of making a commitment, and there was none.

Mr. Chairman, we are positive. The Member for La Verendrye wants to know when this government is going to accept the responsibility for the difficulty that Manfor has experienced. I'm telling them today that we have accepted it. We have accepted it for two-and-a-half years, and we have done something about it.

The Chairman indicated and I indicated in my earlier comments that the operating loss for the coming year will be reduced by half. The following year, it will be reduced significantly again. We hope, in fact, that it will be in a balanced position or in a profit-making position in terms of financial statement.

That is what management's about. It's about making decisions; it's about having a commitment; and it's

about proceeding with it. In the four years previously, there was none of those things, and that's a fact. I don't think that the Member for La Verendrye can honestly say, this government hasn't done anything. We have done all that we could and the chairman of the board of directors, the new chief executive officer, and the staff are working together with us to make that happen. The results are going to be positive.

In terms of the longer term, we said at the beginning in November when this project was committed that there were going to have to be other options considered for the long term. We said that. We recognized it. But the investment that is being made today is something that can be justified on the basis of the short term, the next six to 10 years and perhaps longer. That investment is something that we're undertaking to assure the people of The Pas, the workers in the area, in Wanless, in Cranberry Portage and Snow Lake and Wabowden and Moose Lake, that there are continuing employment prospects for them. At the same time, we have a company which we feel will be in a better position than it has been in the past, because of the concerns that were expressed by the chairman with respect to recapitalization and the debt position of the company, because there is an improved product going to be made available from Manfor, because there will be increased capacity at the saw mill.

Mr. Chairman, the board minutes of June, 1981, before this government took office, the board, and I quote, were concerned about the delay with capital projects. They say: "The current cost to Manfor of not having proceeded with the two projects, which did come to the board, is \$86,981 per week."

Mr. Chairman, I would hope that in future committees when they review the Annual Report of Manfor, no one will say that this government sat on their hands, refused to make decisions that were in the best interests of the shareholder and which cost the company not only dollars, but cost to their reputation and costed a loss of morale and so forth. We are forward-looking. If this is coming across negative, it's because the opposition continues to try to frame the current situation in Manfor in the immediate context, rather than looking at some of the historical reasons for the position that Manfor is in.

Talking about the loss of this Crown corporation and the loss of other Crown corporations, I have indicated that the industry as a whole was in serious financial difficulties. The big boys on the block, MacMillan Bloedel, were losing money. Virtually, every forest industry company in North America lost money. So it isn't something that's unique to Manfor. What is unique to Manfor as a Crown corporation is the government decided to do something about it.

MR. CHAIRMAN: The Minister of Social Services.

HON. M. SMITH: Mr. Chairman, I found this discussion about the internal changes in the company and approach to changes in the equipment and the approach to products. What I want to ask is, there is quite a reference to markets and Manfor strategy in markets. As we all know, a strategy for a company must take account of the external situation.

Could the manager comment briefly on what changes in the marketplace would indicate an improved situation

for Manfor, and what would indicate a worsening of the situation? As I understand the strategy, it's to give you information that would enable you to manage the company appropriately and, of course, there's always a bottom line below which, if you fall, it may not make sense to continue the operation. But if there are emerging opportunities down the road then it does make sense to hang in and prepare for those. So I just wonder if you could comment a little on the external factors and the context within which you've made your strategy.

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: What we did is we looked at what we had and what was happening to it which is a place to start I guess. I mentioned earlier that the unbleached market was shrinking at the rate of 2 percent per year, and that the capacity was reducing at 6 percent. So what's happening in the unbleached craft market, particularly in the checkstand market, is plastics are coming in, you see them in the stores. But we also found that there is a specialty market called multi-wall sacks, which is fertilizer, cement bags, those kinds of things. We don't believe, according to what we can see, is going to switch, that that's going to be a continuing market for multi-wall.

With respect to the lumber side of things. Of course, lumber is a much more volatile product and, as we move most of our product in the states, it depends entirely on housing starts. It's a little more difficult to see over any great time horizon. But, when we put all that together, it seems to mean that if we can get our manufacturing costs for lumber down to an average price, if you look at the cycling prices over the years, that we could run the sawmill without cost to the integrated complex. If we can put together a stress sheet in the pulp and paper side, and the clean pulp, which is another part of the market, then we should be able to survive for 6 - 10 years without doing anything else. But a market strategy has to be dynamic, it has to be reviewed all the time as things change.

I think what Mr. Sweeney is referring to is, having done that, then we have to look at what else can we do. Then you get into the broader picture of what resources do we have? What is the capacity of the forest to sustain a larger operation; what kind of trees are they; what kind of papers might we be able to sell over the longer term, and you start talking about a second machine. So there is a short-term strategy based on the current product that we can't say for certain won't keep us in that product over the long term. But we also have a long term, or a longer-ranging strategy developing which looks at, what about the bleach market; what about the other kinds of papers; what's our capacity to expand; and what does that mean in terms of expanding?

MR. CHAIRMAN: Mr. Ransom.

MR. B. RANSOM: A question for Mr. Sweeney. When he said that during the next 10 years we might be looking at doubling of capacity. Can you make a rough estimate of what the capital cost of that might be?

MR. CHAIRMAN: Mr. Sweeney.

MR. J. SWEENEY: Mr. Chairman, in 1984 dollar terms, doubling capacity at The Pas will involve, depending on the product, bleach craft is something less than the figure I'm now going to give you, but the product development will be \$350 million in 1984 dollar terms.

I think I have a supplementary comment that I'm impelled, I feel it's a duty to comment. The computer model of The Pas complex is one of the few in Canada. One can make assumptions, punch them into the computer, and one can receive back an answer. The answer will be as accurate as the assumptions one puts into the model. There is nothing we are now doing that will prevent us from going the bleach pulp route at some future date, even on the present plant if that seems to be the profitable product of the future, and it may well be. However, there is nothing in the second machine of which I dream which will stop us from producing a bleached paper or pulp and converting the existing plant to bleached pulp. Our options, in other words, have been kept open. I'm pleased, very pleased to say, there is nothing we are doing to day that will impede our progress of the future if the opportunity and the dollars are there.

I might finally make one more comment, Mr. Chairman, because the question of the shrinkage of the brown paper market has been true for some years, roughly 2 percent per year; the shrinkage of capacity as Mr. Harvey has said is 6 percent per year. The product that we will be making at the termination of our retrofit is one that is made by only one other company. Between the two companies we will produce about 500,000 tons of a very superior multi-wall paper. We expect, and we have evidence to date that we are going to be chased by every user of multi-wall paper for many years to come because it is what I call a four-way-stretch paper. It resists breakage on dropping a cement bag, for instance, and if we have 500,000 tons in a market which is 1.2 million tons of multi-wall paper you can be sure that our share of market, including St. Regis incidentally, will remain very high. The market of those who cannot afford to convert will diminish; our market will not, or should not. It's an important kind of consideration in this exercise.

MR. CHAIRMAN: Mr. Harapiak.

MR. H. HARAPIAK: Thank you, Mr. Chairman. I would like to make a few comments. I guess as MLA for The Pas I'm pleased with the modernization that's going on. There was a lack of commitment on behalf of the shareholders, and I'm not going to be blaming any previous government, or previous management, or anybody else, but there was a lack of commitment to that plant which had an effect of having an air of uncertainty in the community. I think that the business community in The Pas sensed this and they were not making the necessary investment in their businesses in the community, and this was having a very negative effect in the entire Pas area; but since the commitment was made to go ahead with the modernization and expansion, there is a new air of optimism in the area which is having a very positive effect.

I would also like to thank Mr. Harvey as chairman. I think, as chairman, you have initiated many studies which will help make Manfor more viable in the long

run and, under your leadership, the Board of Directors have become a competent well-informed group of directors.

I would also like to make mention of the worker representation. It was mentioned earlier there were two worker representatives and the Member for Lakeside. That's sure going to make a big difference and I think it does make a big difference. I guess, coming from the working group, working area myself, I'd just as soon that the people recognize that the working person has a valuable contribution to make in the running of any organization and the better off we're all going to be.

I would also like to welcome Mr. Sweeney. I know that your experience in the pulp and paper industry is going to serve us well, and I look forward to working with you and I am tempted to get into discussion on the philosophical hangup that some people have on Crown corporations, but I think I should stay away from that because it's going to prolong this.

MR. CHAIRMAN: The Member for Lakeside.

MR. H. ENNS: Mr. Chairman, through you, I suppose, to the chairman, in going through this very fine report and bearing in mind, as the Member for The Pas just reminded me, that indeed this is the first time that workers are represented on the Board of Directors.

I am surprised that little or no mention is made in the report of the human resource involved at Manfor, other than on Page 34, which has a one sentence acknowledgement that an average annual direct and indirect employment of 1,000 persons is involved at Manfor.

So I would ask a few specific questions to the Chairman. How many employees are currently employed at the mill? I would like a breakdown of the current employee staff. I appreciate that it fluctuates but . . .

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: I'll ask Mr. Demaré to get us the actual breakdown between the three divisions. I think it's in the order of 700 and something at the moment, in total. Its high has been around 1,000 and that's a seasonal high as well, I think you understand, when the woodlands is going strong and everything; but, if you like, Mr. Demaré can give us an actual breakdown of the manning at the mill at the present time.

MR. H. ENNS: I think it would be of interest, Mr. Chairman, to have some idea of how many are, on average, employed at the mill, in the sawmill and in the woodlands division, in those three areas of the workforce.

MR. M. HARVEY: He'll have it for us in a minute.

MR. CHAIRMAN: Mr. Minister.

HON. J. STORIE: Mr. Chairman, just to comment to Mr. Enns, the Member for Lakeside, on Page 33 there is some mention of the employee representation and human resources as well; perhaps not as extensive as the member would like, but there is a recognition of that important resource as well.

MR. H. ENNS: Mr. Chairman, while the officers are looking for this additional information, am I correct in assuming that in the woodlands division a substantial amount of the work is still being carried out under contract arrangements with different groups? I'm thinking particularly of Native groups that contract for x number of cords per season, which is handled under a contract rather than direct employment basis.

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: Yes, we have still a number of contractors. Moose Lake Loggers, of course, is one that you would know about. There are people in Wanless that work on a contract basis rather than as direct employees. There's some in Cranberry Portage; there's a man in Cormorant that does a fair amount. We have had discussions in Wabowden about that kind of operation. I don't think we have a contract yet. We are talking to the Cross Lake Indian Band with respect to a harvesting contract and we've had some initial discussions from Pukatawagan, but as yet they're in a very initial stage. So I think our contract workforce is probably about the same as it has been for several years.

MR. H. ENNS: Can you give me some idea of the size of the workforce at this time?

MR. M. HARVEY: Yes.

MR. CHAIRMAN: The figures are now here, I think.

MR. M. HARVEY: Mr. Enns, at the end of the year under review - we don't have a current figure - there were 602 direct employees and contractors' average employment was 106 for a total of 708. That was at a very depressed time so I would expect that would be increasing.

The highs and lows on the woodlands side, in 1983 we had 180 woodlands employees, 251 woodlands contract employees - those would be contractor employees. In pulp and paper, we had a high of 373 employees. In the sawmill, we had a high of 105 employees. In the engineering division, which is the machine plant, 14 employees, a high; one employee in the real estate division and 15 employees in the corporate division, for a total of 939 at the high of 1983.

I would suggest that probably at the current time we would be around the 700 mark, maybe a little better.

MR. H. ENNS: It's of interest to me, and in visiting some of the other industrial complexes in the North particularly, in this case mining, that in the four areas of payroll costs, unemployment insurance, Canada pension, workers compensation and, of course, now the payroll tax, really quite astounding increases have occurred over a relatively short period of time. I was informed, for instance, that for every employer a company such as Inco or Sherritt Gordon, in 1981, payroll cost per employee per year for these four programs were in the \$700 to \$800 range and, in three short years to the present, had jumped to \$2,200 to \$2,300 range. That's an astounding increase in payroll costs. Would the chairman confirm that Manfor has experienced a similar rise in payroll costs?

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: Mr. Chairman, to Mr. Enns, we do have the increase in payrolls. Unfortunately, we don't have them broken down by benefits. We have benefits, wages, and salaries all together. We can give you that figure, if you like.

In 1974, it was \$12 million; and 1983, it was \$27 million. We don't know how much of that was a benefit increase, and how much of a salary increase.

MR. H. ENNS: Mr. Chairman, through you to the chairman or the other officers of the company, specifically can you tell me what was your increase in percentage terms in Workers' Compensation payments this year?

MR. M. HARVEY: We don't have that figure. We can get it. We don't have that figure with us.

MR. H. ENNS: Well, I ask the question specifically because it ranged in the 33 percent to 36 percent for corporations such as Inco, Sherritt Gordon, HBM&S. It was confirmation of that kind of information that I was seeking. I asked these questions, Mr. Chairman, because of the \$64-million gross sales, how much of those sales are going beyond into the export market?

MR. M. HARVEY: We'll find that for you.

MR. H. ENNS: I think the officers of the company will agree that, even leaving aside the outside market, the product that Manfor is marketing is in a highly-competitive field. Any additional costs added to that product by one form of government action or another has to be of some concern to this corporation.

MR. M. HARVEY: With respect to sales the last 10 years, the total Manitoba sales were \$83 million - there is some lumber resold in the U.S. out of that figure - outside of Manitoba and Canada, 242 million; outside of Canada, 232 million. So we're a little better than half export, if you include the United States as an export.

With respect to your question on increased costs, of course, that does have an effect. If our competitors in the same market are not experiencing those kinds of costs, then we have difficulty with our manufacturing costs in being competitive.

MR. H. ENNS: In the Woodlands Division where you have most of your work being contracted out, Manfor manages, of course, to avoid the payroll tax under the terms of that contract, is that correct?

MR. M. HARVEY: The payroll tax would be the responsibility of the contractor. Yes, that's correct.

MR. H. ENNS: Thank you.

MR. CHAIRMAN: Mr. Ransom.

MR. B. RANSOM: Mr. Chairman, a question for Mr. Sweeney, what about other companies' long-term debt? With this company before us, long-term debt is now

only \$1.165 million. Has Mr. Sweeney seen anything like that level of long-term debt for other companies? What would a comparable figure be?

MR. CHAIRMAN: Mr. Sweeney.

MR. J. SWEENEY: The common figure of debt to equity is 30 percent. The objective of every company with which I am familiar is to reduce that percentage, that ratio. There are companies today, and there are many of them, where their debt to equity is 50-50 or, putting it differently, it's \$1 of debt for \$1 of equity.

MR. B. RANSOM: So, we've gone from a situation where the company had high long-term debt, even though they really weren't paying that much interest on it, to one where it now has to be a debt equity ratio, I guess, of down around .5 percent instead of 30 percent. Would that be correct?

MR. J. SWEENEY: Mathematically, Sir, we have a very clean balance sheet in that respect. However, ours is a corporation which does not pay income tax. I haven't thought of the implications of that statement, but it has a bearing on the debt-to-equity ratio. Maybe Mr. Demaré would enlighten me on that aspect of it. I haven't . . .

MR. B. RANSOM: Well, clearly from the report, there is now a very small amount of long-term debt. The company is going to have an interest cost in the range of \$50,000 a year. Now there are lots of small businessmen and farmers who have run interest costs of \$50,000 a year. So it's going to mean that essentially the company is going to operate virtually without interest cost. Under those circumstances, of course, they should be in a much more competitive position to be able to show a profit in this report.

I have a question for the Minister. The Minister has frequently made comments about the previous government not having the shareholders' interests in mind, that we somehow had the interest of some other investor in mind. In this report, it shows now that the government has an equity position of \$160.02 million. Can the Minister give me an approximation of what it cost the taxpayers of Manitoba to have an investment of \$160 million in Manfor during the year under review?

HON. J. STORIE: Mr. Chairman, to the Member for Turtle Mountain, obviously that's a long-term question. It's certainly not something that relates specifically to this year. I would indicate, as well, that the investment that has been ongoing in a sense to Manfor since its inception has not been without benefit. Certainly, the question of the employment at The Pas is one of the factors.

On Page 34, where there's a review of some of the benefits to the provincial economy which talks about the positive cash flow from operations which exceeds \$40 million before the provincial charges. It talks about the employment of 1,000 people; it talks about the \$9 million paid to municipal taxes, and it's talking about, overall, direct and indirect payments, positive cash flow to the shareholder, which is the province, of \$17 million. I don't know, perhaps I could ask Mr. Harvey to comment.

MR. B. RANSOM: You're the shareholder's representative.

HON. J. STORIE: You asked me for a figure and obviously I don't have that figure.

MR. B. RANSOM: Mr. Chairman, I'm not surprised that the Minister doesn't have an exact figure, but his statement that somehow this isn't something of current consideration is rather amazing, coming from the Minister of the Crown. Is the Minister trying to tell us that this \$160 million that the government has in equity in this corporation is not a charge upon the taxpayers of Manitoba in the year under review?

HON. J. STORIE: No, Mr. Chairman, I'm not trying to tell the committee or anyone else that. What I'm saying is that obviously - and the Member for Turtle Mountain and his particular party is well aware of - the circumstances that saw the creation of Manfor, and they are not happy circumstances, and they were not circumstances that I, Sir, was involved in, nor was this particular administration.

What I will say is that, despite the fact that is water under the bridge in some respects, that there is a corporation in place which will have a positive impact, at least we're predicting that it will have a positive impact and, from a particular point of view, has had a positive impact on the province's economy. Certainly the money that's been invested over the years, we can sit here in judgment and say, in retrospect, maybe we shouldn't have got into it. But that's a question that should have been asked in 1967-68, that's not a question I think that is legitimate to place on my plate and say, here, you answer it. That was a decision that was made not by me, not by this government.

What we have done is attempted to assure that the future of Manfor is in the best interests of the province as a whole, and we have gone about to do that in a very purposeful way. I think the discussion we've seen here this morning, on the part of the Chairman and the part of the Chief Executive Officer gives a very firm indication of the fact that we have the province's best interests at heart, the shareholders, and that we intend to make this, not a liability in the provincial sense, but an asset; not only to the province, obviously to the people in The Pas as well.

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: I'd like to clarify something to you. The question with respect to interest is correct. There is only a minor amount of interest payable at the moment but, with respect to the equity participation, some of those preferred shares are retractable and they're retractable in a dividend way with dividends commencing in '86. So the shareholder would be receiving approximately \$4.2 million of dividends per year commencing in '86.

MR. B. RANSOM: If there's a profit.

MR. M. HARVEY: If there's a profit, yes. Well he wouldn't get the interest if there wasn't a profit either. I'd say it's a question of how it appears on the sheet

and I didn't want to leave the impression that the corporation had gone from a position of being overburdened with debt to a position of being relatively debt free because that's not correct.

MR. B. RANSOM: Mr. Chairman, a number of points have been raised here. The Minister makes a comment about the chairman and the chief executive officer and their competence. I'm tending to agree with what the Minister says in that regard. I have a lot more faith in the chief executive officer and in the chairman than I do in the Minister because we're getting some answers from the chief executive officer and from the chairman. What we're not getting is any demonstration, any indication that the Minister understands the debt structure of the company and what it means to the taxpayers.

He makes a reference to the history, to an unhappy history of the corporation. Mr. Chairman, they just wrote off \$51 million in this year under review, and that \$51 million has to do with the past, of dealing with people who were less than honest in the past. I've made no comment about that \$51 million. It's been written off and it's going to show up on the books somewhere as a loss relating back to that situation. What we're talking about is what has happened since that, since the inception of this corporation.

There is now \$160 million of provincial taxpayers' money in this corporation and I asked the Minister of Finance what the borrowing costs would be today for Canadian or U.S. dollars. He says about 13.5 percent. Well \$160 million at 13.5 percent is over \$21 million, Mr. Chairman. The money that's gone in here hasn't all been borrowed at that rate, but that's the opportunity that there is to the province if they had that \$160 million out, is to pay off some of the money that's been taken out at those very high rates. So what we're talking about here is not just a \$24 million loss that shows on the books, what we're talking about is probably a \$20 million loss, when you take the interest charge out of it, which did go to the province; and then you're talking about maybe an additional \$15 million cost to the taxpayer of Manitoba. So that what you're really looking at is \$35 million, and that's what you have to balance all this against, and that's just for this year, Mr. Chairman.

I find it quite a curious feature of this annual report that there is so much justification here for what has happened in this company, as opposed to how the company has actually being managed, and where it's going to go. Because when I see so much comment about the cash flow into the economy, the statement that the direct and indirect cash return to the government of the Province of Manitoba is approximately \$17 million, that's over the term of the existence of Manfor. This is an attempt by the corporation to justify their position in a way that is different from what an ordinary private sector company would attempt to do.

There may be some justification to that, but if we're going to do that, then let's look at the other side of the equation, as well, and that is the cost to the provincial taxpayer to have a \$160 million in here. That's what we were looking at, Mr. Chairman, when we were in government.

If the Minister wants to go back and look at the comment, the discussion, that took place around this table he will always find that there was a commitment to maintain the employment at that complex. What we were looking for was the least cost way to the taxpayers of Manitoba to do that. If that meant bringing in private sector people to run it and save the taxpayers the interest cost on that \$160 million, then that's good; in my view that's good.

So let's not overlook the cost that's attached to that 160 million. The opportunity cost of that this year is in the range of 20 million. What about last year, and the year before, and all of the equity that has been there, or the debt which didn't collect interest over the 10 years of that corporation? I dare say - this is purely a guess - but I dare say that the cumulative interest cost on that to the taxpayers of Manitoba has got to be well in excess of \$100 million. That's real cost. That shows up in the debt-servicing costs of the Province of Manitoba in the Estimates of the Minister of Finance. That's why over the last couple of years I have always urged the government to identify what it costs the taxpayers of Manitoba to hold these equity positions. Then we'll know whether it makes sense to have the kind of payroll we've got, the kind of purchasing that takes place there and we'll be able to balance it off. But what we have here in this report is simply one side of the issue. It doesn't show the cost that the taxpayers have to bear.

Now, I have some questions about the refinancing as well, Mr. Chairman. I only learned of this refinancing when I got this annual report. Now that may be my shortcoming, Mr. Chairman, it may have been announced. I don't recall it being announced. I recall the refinancing of McKenzie Seeds being announced with a great fanfare; I recall the \$40 million pledge to retrofit Manfor being announced, but I don't recall this being announced.

Now on Page 23, under Note 8, it says that as authorized by Order-In-Council 1,296, dated November 30th, 1983, 123,259,000 of debentures and advances owing to the Province of Manitoba as at April 1st, 1983 was converted to preferred shares. On November 30th that was passed. The year end before us is September 30th, 1983. My question to the Minister is how can this statement reflect the debt equity position of the government as of April 1st, 1983 reflected in the September 30th statement when the Order-In-Council authorizing the refinancing didn't take place until two months after the year end of the corporation?

MR. CHAIRMAN: Mr. Minister.

HON. J. STORIE: Mr. Chairman, I am not an auditor, nor a preparer of financial statements, so I'd ask Mr. Harvey perhaps to comment.

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: These are the auditor's notes, Mr. Chairman, and I understand from our corporate secretary, who is also an accountant, that it's common practice to make notes of this nature of an event that occurred subsequently. I'm not an accountant either but that's what the Provincial Auditor chose to do and that's what our corporate secretary says is practice.

MR. CHAIRMAN: So it's a common accounting practice.

MR. M. HARVEY: If you understand accountants.

MR. B. RANSOM: Mr. Chairman, we will have an opportunity to speak with the Auditor, but this Order-In-Council dated November 30th is what authorizes the restructuring of the debt. Until that Order-In-Council was passed there was no authority to restructure the debt, there was no authority, but yet it reflects in the statement that ended the 30th of September, 1983.

MR. M. HARVEY: It has an effective date, Mr. Chairman, of April 1, 1983.

A MEMBER: What effect did that have on the statement?

MR. M. HARVEY: It's in the statement as of April 1, 1983.

MR. CHAIRMAN: Mr. Minister.

HON. J. STORIE: Well, Mr. Chairman, I simply note that the Provincial Auditor's Report, on Page 13, indicates that the financial statement is approved, and has been prepared in accordance with standard auditing procedures and I would simply assume that, in line with what Mr. Harvey has suggested, that it is obviously a practice that has some recognition at least from the Provincial Auditor's point of view.

MR. B. RANSOM: Mr. Chairman, first of all did the Minister announce this refinancing?

HON. J. STORIE: Mr. Chairman, I believe that the three approaches that were being taken in terms of reorganization, refinancing, and retrofit were announced on November 8th or 9th, that that was the intention.

MR. B. RANSOM: Mr. Chairman, with this retroactive change in the financial structure then of the company, there was a lifting of debt of interest costs from April 1st through to September 24th. What would have been the interest cost approximately during that period of time if this restructuring had not taken place back to the 1st of April?

MR. M. HARVEY: I think the interest relief was in the order of just over \$2 million.

MR. B. RANSOM: So that without this restructuring then the loss for the year would not have been 24 million and something, it would probably have been \$26 million, \$27 million then done on the same basis as last year?

MR. M. HARVEY: That's correct.

MR. B. RANSOM: Mr. Chairman, did the Minister announce the write-off of the \$50 million loss from the capital efficiency that was written off? Did he make an announcement of that?

MR. CHAIRMAN: Mr. Minister.

HON. J. STORIE: Mr. Chairman, no I did not announce the details of the refinancing.

MR. B. RANSOM: Can the Minister tell us where that \$50 million will show up on the books of the province? Will it show up as a charge, as a cost against that fiscal year?

HON. J. STORIE: Mr. Chairman, I'm informed that, no, it won't show up this year. It was actually written off in the year that those events occurred.

MR. B. RANSOM: I suppose that what the Minister is saying is that did not show in the books of the province or MDC, and as an asset, and so the write-off will not show up then in this fiscal '83-84.

HON. J. STORIE: Mr. Chairman, I don't pretend to understand this, but apparently the \$51,000 shows up originally as assets. It showed up as a countering entry as the equivalent of doubtful accounts as an additional \$51 million. It was recognized, apparently, at that time, that there was little likelihood of that ever being recaptured and so it will have no impact on the statements for this year.

MR. CHAIRMAN: Mr. Banman.

MR. R. BANMAN: Thank you, Mr. Chairman. To get a clear picture, this company next year, after the refinancing, what in essence is happening is that the taxpayers of Manitoba are giving this company that mill and all the assets up there for this coming year to run and are not really, unless, of course, the company shows a profit, getting a one-cent return on their investment. In other words, it would be like if the government would give a farmer 1,000 acres of land to farm and whatever he or she could make on that land would be his; he wouldn't have to give the government anything, unless, of course, there was a profit.

HON. J. STORIE: No, the unless, of course, is important. The fact is the chairman of the board has indicated that there would be \$4.2 million pay back to the province, or in excess of \$4 million. Obviously, as I've indicated, and to the Member for Turtle Mountain, I am quite aware of the fact that there is a cost to the taxpayers and has been a cost to the taxpayers to support the operations at Manfor. We have never denied that.

The decision that has been made has been made on the basis that this will no longer be a burden. The dividends that will be payable to the shareholder will be a pay back to the province and that the investment that is being undertaken right now to upgrade and modernize Manfor will, in fact, be some of the more successful investments in Manfor. I suppose the opportunity costs in some respects have been lost. All we can do is move forward in a cautious and yet realistic fashion and that's what's being done.

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: Yes, I just wanted to make an addition on the dividends I spoke to earlier. The retractable shares, although the dividends aren't payable till '86, they are accumulative immediately. The reason that they start repaying in '86 is that our model tells us that's when we would be able to service that kind of a dividend pay out, but they are accumulative from the date that we get the money.

MR. R. BANMAN: The Minister said before that they projected the debt would be half of what it was last year and then the year next to a break-even point. That break-even point, are you anticipating starting to pay a dividend that particular year, or is it the year after that you're looking at dividends?

MR. M. HARVEY: The dividends commence in 1986. Our projections are that we will be slightly under the break-even point. I think it's in the neighbourhood of \$120,000 in '85. We hope that we'll improve that to the break-even point. We're a little bit ahead of the model right now, but we're kind of hedging our bets. The model indicates that by 1986, we could comfortably start to pay the dividend out.

MR. R. BANMAN: Just to make a final observation and to have it clearly understood, the \$160 million that we, as the taxpayers of Manitoba, have in this particular company, as the Member for Turtle Mountain put it, borrowed at 13.5 percent, the annual subsidy by the taxpayers of Manitoba over the next number of years at 13.5 percent is \$21 million. If this company breaks even, in two years' time break even really means that we're looking at a \$21 million subsidy. We just want that understood in the overall scheme of the thing.

I have one other question which I'd like to ask Mr. Harvey. One of the advantages, if you want to call it, that the company has had over the last number of years is the devalued Canadian dollar which has had significant impact. If it hadn't been for the devalue of the Canadian dollar, we would be in such a hole here I don't know which way we would be able to turn. What has the company projected? Have you projected on a 76- to 77-cent dollar this coming year, or what kind of projections have you made as far as your export sales which represent a pretty substantial part of your sale?

MR. M. HARVEY: Yes, well you're correct in the statement that the devaluation helps us. We lose some of that, of course, because we're losing our tariff protection with the United States under the GATT arrangements. That kind of offsets some. I think we are also going to pay a bit out when we start buying machinery because a lot of that is in U.S. dollars as well.

The president probably would be more familiar with what he is projecting for sales and the effect that the dollar will have on sales in the next year.

MR. CHAIRMAN: Mr. Sweeney.

MR. J. SWEENEY: I find the question difficult to answer without a little bit of mathematics there.

MR. R. BANMAN: Mr. Chairman, if I could just ask. Does one percentage point make any significant difference?

MR. M. HARVEY: I suppose in lumber more than paper, because we sell more lumber down south than paper, although that market is one we are looking at. Of course, lumber prices are U.S. prices and they're very depressed at the moment but they would be worse if they were Canadian prices.

If I could just make one more comment with respect to the \$160 million. Some of it you will appreciate is sunk cost, some of it is accumulated interest and I guess there are a lot of companies today that would like to get their sunk costs out of operations and a lot of them that won't. I don't know what the mill is worth at the moment on the market in terms of the difference between what is paid for it and what it's worth right now; so that's one comment I would like to make.

The other comment I would like to make too is that if you're looking at what it's costing you, then you have to enlarge the equation on the other side; and although we did some of this in the report there are a whole host of secondary benefits that no one as yet, that I know of, has been able to calculate quite distinctly so that you can see what is the value of creating a job to the Province of Manitoba.

We know that in income tax alone it's probably worth more to Canada than it is to the province but if we were going to do that equation I think it would have to be done in a total sense.

MR. CHAIRMAN: Mr. Ransom.

MR. B. RANSOM: Mr. Chairman, that becomes a very complicated sort of state planning function to try and measure all those things off, but there generally is a standard that's accepted and that's the market and a return on investment which has been shown over time to work very well as a measure of whether something is productive and is contributing to carrying society generally or whether society is carrying it.

Whether these costs of \$160 million are interest or whether they're sunk costs or whether they're something else, it is still \$160 million of taxpayers' money upon which the taxpayer has to pay interest every year. There has been some discussion earlier about shareholder objectives and return to the shareholder. If the government today is borrowing money and lending it to farmers, for example, and the return to the government in that case is expected to be the cost of the borrowing plus a small administrative charge. Now those farmers are out there creating employment; they're buying goods; they're paying income tax, all of those things, and the government wants their money back plus a little bit more.

Now, is that reasonable then to assume that would be a reasonable rate of return to the shareholder, in the case of the company that it owns itself? And if that's the case, then what we would have to see in this statement, depending upon the interest rate of the day, but given the interest rate of today, Manfor would have to come before this committee showing a "profit" of in excess of \$20 million before the taxpayers, the owners, could really say we have broken even and it would have to show a profit substantially above \$20 million before the taxpayer, as an investor, could say we have made a profit. Is that a fairly reasonable statement of the situation, Mr. Chairman?

MR. M. HARVEY: Mr. Ransom, I realize that this is a difficult area. It's a difficult area for me and Mr. Sweeney, who have to run the company in commercial terms. I think the difference between what you talk about and your former statement is that the government owns the asset and there is a value, we would hope, in the asset; so I guess, in overall terms, if you invest in a company you expect a rate of return that's comparable to what you would get if you could put your money elsewhere, and I think both Mr. Sweeney and myself would agree that's a reasonable criteria against which to judge any company. Hopefully we would see Manfor as being able to do that as well.

MR. CHAIRMAN: Mr. Sweeney.

MR. J. SWEENEY: I was asked a question by a Minister which I interpret to be, and I think I must restate the question to be sure that I answer it properly.

The GATT tariff protection goes down, essentially, 2 percent this year. The Canadian dollar has already gone down 5 cents this year. The net difference between GATT and the Canadian dollar is 3 cents per dollar.

On the incremental tonnage that we expect to make next year which approaches 25,000 tonnes to 27,000 tonnes, I would expect to see \$810,000 on exchange, net of the GATT reduction. Secondly I would expect - and my intuition has been on the spot pretty well - I would expect a \$30 dollar a tonne increase in our price of paper, U.S. dollars. I bring that figure to another \$500,000 to \$600,000 or, in effect, I'm talking about \$1,300,000, due to three factors, GATT exchange and more tonnage.

That is for the incremental, the new production over the year under review, which ran below capacity. If I multiply that simply by three, I come to a total of \$3.9 million in total extra revenue over the year 1983, the year that ended on September 30, 1983.

I hope I've answered your question.

MR. B. RANSOM: Mr. Chairman, Mr. Harvey answered the last question. I actually expected, I think, the Minister to answer that question but I just want to tell Mr. Harvey that I congratulate him as a chairman of the board for what he has done in getting equity financing. If he was the chairman of the board of a private company and was able to take his company from a long-term debt situation of \$113 million in these difficult times and go out and sell equity shares on the market and bring his long-term debt down to \$1,165,000, he'd be up there with some of those people that are getting 500 grand a year for that kind of management; so I congratulate him for what he's done in terms of this company. I understand why he does that and it's certainly going to make it easier for his company, the company that he's responsible for, to show a profit; but I'm interested in the Minister's responsibility because he has a responsibility to the taxpayer. He's representing the shareholder and that's what I want to know from the shareholder's point of view. Since there isn't a functioning market in this case that puts a value on the shares of this company, is it reasonable to under today's interest that this report next year would have to show a profit of approximately \$20 million before the Minister could turn to the shareholders that he represents and say this year we got our money back?

MR. CHAIRMAN: Mr. Minister.

HON. J. STORIE: Well, Mr. Chairman, if we assumed a number of things I suppose it's that . . .

MR. B. RANSOM: You make whatever assumption you want.

HON. J. STORIE: Let's assume, as Mr. Harvey has indicated, that there are other factors that have to be put into the equation. I was going to say this, Mr. Chairman, that members opposite did attempt to I suppose recoup those sunk costs, remembering that the investment in Manfor, the taxpayers investment, occurred over a number of years and a number of administrations. The difficulty, of course, is and no one has ruled out the possibility at some point of, as Mr. Sweeney suggested, doing further expansion, a joint venture, or I suppose if someone said, and could give the guarantees of continued employment which you expressed concern about, that we wouldn't sell, that we wouldn't provide opportunity for joint venture, further equity to a private company or whatever. The difficulty is that, I don't care what kind of salesman you are, you do not - and as the member has found out in their four years - you do not have an overabundance of people looking to invest in whatever way in that kind of company.

So how do you recoup that cost? You certainly can't recoup that cost by selling a company at bargain basement prices which would have been necessary because no one was prepared to invest in a company that they saw, and I presume members opposite saw, as needing a major upgrading to make it a viable operation. So I'm saying that right now the shareholder is going to be in a better position with the company in a viable profit making situation than if nothing had been done, because really, all the rhetoric aside, that's the choice we had to make. Do we do something or do we do nothing? If we do nothing, there is no chance whatsoever of recouping the kind of opportunity costs that were lost. I don't know if that's the correct term but basically what I'm saying is that in your analogy with the farmer, if the farmer found that his particular piece of land had nothing but stones on it and there was no opportunity for him, for the shareholder, to recoup his losses, he would have to then make a decision on whether to clean up the land, whether to pay for the removal of the stones to make it a viable operation and then, and only then, if that decision had been made and that money had been invested would there be an opportunity for the shareholder to divest himself of the asset in a way that was acceptable to the shareholder.

MR. B. RANSOM: Mr. Chairman, the Minister seems reluctant to deal with the question that I've asked. He seems to agree that, yes, the taxpayers as shareholders have \$160 million invested in this company after the 51 million has been written off. That's down the hole and gone. We're not even talking about that. But the taxpayers now have \$160 million there and I have not been critical of the action that they've taken; I've not been critical of what the Chairman of the Board has told us and what the Chief Executive Officer has told

us about their plans. We're pleased to hear some optimism. All I want to know from the Minister as a representative of the shareholder who has invested in this company is that at what point on the profit and loss line of this company will he be able to say to the taxpayers who have 160 million in it - yes we broke even, we earned as much money on our 160 million as we could have gotten if we had put it in the bank or paid off some of our debt, more realistic. That's all I want to know. Would it be at today's interest rates, approximately 20 million? Would this company have to show approximately a \$20 million profit before the Minister can say to the shareholders - yes, this year we have broken even?

HON. J. STORIE: Well, Mr. Chairman, I suppose the simple answer is no. You're talking about a corporation which is assessed strictly on the basis that the Royal Bank would be assessed at. We've indicated in the . . . I remind the member that the original investment was undertaken and the province pursued that particular, the CFI deal with twin objectives, to create employment and to use the resource. I'm not sure whether that analysis was correct. But in a strict term obviously this government and the retrofitting that we're undertaking is attempting to redress the balance that the member's talking about, the imbalance, pardon me, that the member's talking about. When we will exactly be able to say that - yes, finally the shareholders have not only had their equity investment returned but a profit is a longer term question.

MR. B. RANSOM: . . . he refuses to answer, that's all.

HON. J. STORIE: Mr. Chairman, I'm not refusing to answer. I'm saying obviously that's a difficult question and will depend on a number of factors over the next number of years.

MR. B. RANSOM: This is a very straightforward question, and as my colleague from Lakeside points out, it has relevance considering all of the other corporations that the government is now in, and the new corporations, the new companies that the government is proposing to invest in. Whether it's an aluminum operation, whether it's an oil company, it is not just the profit line that shows up on here that tells whether the taxpayers are getting a return on their money. I am not debating the issue of employment and other benefits. What I'm trying to do is identify the cost that is associated with attaining those other benefits. There are other benefits and the government may very well make a deliberate choice to run an annual cost to the taxpayers in order to achieve something else out there. All I want to know is what that cost will be. Next year, if it comes in as they suggest, with approximately a \$12 million loss here, is it fair to say then that the cost to the taxpayer of Manitoba to achieve the employment and the contracts and that sort of thing would be represented by adding the and an interest charge against 160 million?

Then you can debate and say, okay, there's a \$12 million loss. There's a \$20 million interest charge. There's a \$32 million cost to the taxpayer to achieve

all of these other social benefits. That's all. Then you can debate that, rather than try and simply look at the side that says, there is \$17,000 returned to the government. The average person looking at that report would just probably not realize. It hasn't been pointed out what the cost is to the taxpayer.

All I'm asking of the Minister is to acknowledge that indeed there is a cost to the taxpayer and that this year, given the government's borrowing costs - and they're borrowing a lot of money - that it would be approximately \$20 million to finance \$160 million of equity.

HON. J. STORIE: Mr. Chairman, I have said all along, obviously there is a cost to the taxpayers. The Member for Turtle Mountain is using the term, "cost" in a very specific way. I have indicated and the member of the board . . .

MR. B. RANSOM: We pay it out of our pockets, all of us.

HON. J. STORIE: . . . Mr. Chairman, he says we pay it out of our pockets. If the Manfor complex was not there, we would be paying costs as well. The Member for Turtle Mountain acknowledged the fact that there were other benefits that had to be weighed in that equation.

Mr. Chairman, all I can say at this point is that what we have done to date is an attempt to mitigate the problems that Manfor has had and, by virtue of the fact that we are the shareholder, the taxpayers have had. We have tried to mitigate throughout the last two-and-a-half years, and we are at the point where we're approaching a solution.

We may want to talk about the fact that Manfor needs to improve its profit picture over the next number of years to accommodate and account for that expense by the taxpayers, and I acknowledge it exists. But in simply using the particular equation the Member for Turtle Mountain is using, he's neglecting the fact that there has been already a positive cash flow over the years of some \$17 million to the province. Those counts . . . I acknowledged already - I can anticipate his comment - but I acknowledge that those other factors haven't been weighed in the equation.

It's not as simple an equation as the Member for Turtle Mountain puts out, and he knows that. Certainly, when they were had the opportunity to resolve this issue, it was no simpler for them and they chose to do nothing . . .

MR. R. BANMAN: Answer the question.

HON. J. STORIE: I did.

MR. R. BANMAN: No.

MR. CHAIRMAN: Mr. Ransom.

MR. B. RANSOM: Mr. Chairman, when they talk about a reasonable return to the shareholder, most people talking about capital and shareholders and reasonable return would have to think that reasonable return, especially where you're running risks, has to be equal

to what you could get investing the money in some kind of bonds that have a high rating and very little risk attached to them.

Now this Minister is representing the shareholders who have an equity. He has said that he expects a reasonable return. Is a reasonable return to the shareholders approximately the same as what the shareholders could get by investing their money in some kind of triple-rated bonds?

HON. J. STORIE: I wish the answer was as simple as the Member for Turtle Mountain wants it to be, but unfortunately it isn't. I go through this again. Obviously, we want Manfor to have a profit-and-loss statement which is in the black recognizing that there are additional costs, costs which are accrued to the province by virtue of the fact that there has been that public investment over the years. Recognizing that, there is nonetheless the difficulty that, if we had invested that money at a specific interest rate rather than invest it in Manfor, that we would have had costs, social costs, other costs, accruing to the province all the way along.

MR. CHAIRMAN: What is the pleasure of the committee? It's almost time.

MR. B. RANSOM: Well, there's a prospect, Mr. Chairman, that if we get some acknowledgement from the Minister of his position and a couple of other questions, we can probably wrap it up inside 10 minutes.

MR. CHAIRMAN: We ignore the time.
The Member for Turtle Mountain.

MR. B. RANSOM: Now I'm concerned about the definition that the Minister attaches to reasonable return. There are people out there who have an understanding of what that means in the market, and people who pay tax dollars, make investments themselves. When they hear a reasonable return, that means something to them.

Now what does it mean when the Minister of Energy and Mines says that he's going to make a \$1.7 billion profit? That immediately means something to most people. That means, that is going to be a return to their investment over and above their costs. But I'm having a very difficult time now, given the answers that this Minister makes, that even though he stands up there and says, reasonable return to the shareholder, he doesn't mean that in terms of money. He's talking about all of the other things out there - the employment, the contracts that are let, and the cash flow.

Now if that's his definition, if his definition of reasonable return on investment is totally different than is used in the market, then I think he should put it on the record that's the case. Obviously, that then has further very serious implications for us and the taxpayers in evaluating what the government has done with their Hydro sale; whether when they talk about profit, whether that means profit the way everybody else who invests means profit; when they talk about investing in Alcan and they're talking about profit that it means the same thing. If it isn't, then it really is the 1984 doublespeak where you use the common terminology, but it doesn't mean what everybody else thinks it means.

Now, I'll just give the Minister another . . . I plead with him to clear it up. I want to make it clear to him that I am not condemning him in any way if he says that it's worth 20 million or 30 million to have all this employment and all these contracts. That is a separate issue which could be debated in another arena.

All I'm attempting to do is find out what he means by reasonable return, whether it means the same to him as it does to people who ordinarily make an investment. Can he just clear that point up for us, and we can get on to deal with these other couple of questions before we pass the report?

HON. J. STORIE: Mr. Chairman, I think the best way to answer that is obviously, the financial statement of Manfor deals with a given set of circumstances, financial and otherwise, in the company. Our aim is twofold with respect to equity to the shareholder. One obviously is, given that particular set of financial circumstances, to show a financial profit in the annual financial statement. The second one is acknowledging that there are some costs, that those costs are legitimate cost that the province has chosen to incur. Over the years, both governments have chosen to incur them. Those have to be dealt with. Obviously, like I said, that's a balancing act after that one.

We're talking about the statement that will be coming before this Committee again next year. It will deal with basically the same set of financial circumstances and we're suggesting that there will be a profit picture over the next two or three years.

MR. B. RANSOM: Mr. Chairman, I'm really afraid that the Minister either doesn't understand what we're talking about or he's simply being evasive.

We know what this report means, that is very clear. It's easy to understand what the company has been doing here and what their debt structure is, and all of that, that's plain and we're gotten some very straightforward answers from Mr. Harvey and from Mr. Sweeney about the operation of the company. We know that and we know that they might well come here next year or the year after and say, from their point of view, with the charges that they have against them, they will have shown a profit.

What we are interested in is the view from the investors' point of view and when the Minister says, representing the investor, that he expects a reasonable return on his money, we want to know what he means, because we can't seem to get an answer from him about what is a reasonable rate of return. That's all. Does he measure reasonable return in financial terms or not?

HON. J. STORIE: Both. I've given that answer all along. I think that's the correct answer.

MR. B. RANSOM: Mr. Chairman, then the Minister has said that reasonable return is not just measured in dollars, so that from now on, any time that we hear a member of this government stand up and talk about profit and a return on the taxpayers' investment that we immediately have to assume that we are not using that terminology in the same way that ordinary money managers would use that terminology, so that is, on

the basis of what the Minister has answered, is established and so that, of course, raises questions that we will deal with in another Committee when we start looking at the rate of return on investments in Hydro, the profit, the rate of return to investments in oil or aluminum and we will have to, in each case, find out then what the terminology means because it isn't the standard meaning of terminology.

Mr. Chairman, I just have a couple of other questions in relation to the 10-year financial review - at least they become evident in the 10-year financial review - where it lists the gross sales, the lumber sales are really quite small relative to the pulp and paper, but it's my understanding that a major portion of the losses accrue to the lumber sales. I'm wondering if the information is available or if it's not readily available why, in presenting that, you didn't also show the same breakdown under the cost of sales as you do under the gross sales because you can't identify the costs associated with the lumber operation here, but you can identify the sales.

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: Internally it's possible to do that. We have a problem I have been addressing in a sense that - I guess I should deal with your first question first, Mr. Ransom - the lumber mill has been a significant part of the loss up until the paper market changed and the net effect of that is that the lumber division gets treated as a poor cousin inside the complex itself, so we can break those out. We have chosen to try and operate the complex as an integrated whole which includes a lumber mill and we're taking some technological steps to get the costs of producing lumber in line with the return and they'll probably be very close to even.

The overall complex then will be able to operate and run a lumber mill, but to answer your question directly, the costs of making lumber are available inside the company. They are a cost that we don't like to advertise and for the purposes of a public document we'd rather gross our costs so that there's no indication of that; but to answer your question again, the lumber was losing a significant amount of money. We're trying to stop that and turn it into a small profit.

MR. B. RANSOM: It's very striking here how the total gross sales of the company went up from \$62 million to \$64 million from '82-'83, but the cost of sales rose by \$11 million from 51 to 62, so that there was a small increase in sales, there was quite a dramatic increase in the costs. I believe Mr. Harvey said earlier that a lot of that had to do with wage contracts that had been entered into prior to that time, and I'm just wondering then how the retrofit of the plant is going to lower the labour costs. Is it going to mean that it's that much more efficient, that the same number of people are going to produce more lumber or fewer people are going to produce the same amount?

MR. M. HARVEY: It's a two-part question. Dealing with your last one first, there'll be less people in the lumber mill and there'll be an increase in the number of board feet.

With respect to the cost of sales, the labour settlement had an effect, but what happens on the pulp mill side once you lose your order book, paper has a very short shelf life and you can't inventory it like you can with lumber for a period of time. You have to close your pulp mill down and, effectively, the minute you do that you've got \$70,000 lost contribution to costs going every day so that your cost of producing that amount of sales,

it just starts to escalate on you because you can't run all of your productive capacity all of the time.

On the lumber side, there will be some labour savings from the technological. We will go back up to two shifts but we won't have as many people on the two shifts as we had before and we'll get again, in production.

MR. CHAIRMAN: Report—pass.
Committee rise.



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