

ECONOMIC DEVELOPMENT COMMITTEE
10:00 o'clock, Thursday, April 18, 1974

CHAIRMAN: MR. SHAFRANSKY.

MR. CHAIRMAN: Order. We have a quorum to proceed. I believe this morning it's the CFI, or the Report from the Churchill Forest Industries, from . . . Yes?

MR. MCGILL: Mr. Chairman . . . Manitoba Forestry Resources Limited.

MR. CHAIRMAN: The Pas Forestry Complex in Receivership. There are the Receiver's Report and the audited financial statements. I really don't know which particular aspect we're going to have, but I'm going to call on - is it Mr. Hallgrimson? - to give a general statement before we go into actual page by page review of the Report. Mr. Hallgrimson.

MR. HALLGRIMSON: Good morning, gentlemen. I think you have before you a copy of a report which is styled the Receiver's Report for The Pas Forestry Complex, and this covers the period up to the 30th of September '73. At that date the assets were transferred to a new Crown Corporation, and as Mr. Blake says, the name on that Corporation is Manitoba Forestry Resources Limited.

MR. CHAIRMAN: Mr. McGill.

MR. HALLGRIMSON: Mr. McGill, I'm sorry. The first report then before you will be - is technically a Receiver's Report, or concerning a period when the Complex was still in receivership, or the assets that comprised the receivership. I also have another report which I'll have distributed by the Clerk which covers actually the first six months of the operations of Manitoba Forestry Resources Limited. In view of the fact that this report was distributed I don't want to take up your time in reading material which is in it, but perhaps with your indulgence I might just indicate some of the highlights from the summary which is to be found at the beginning of the report.

The balance of the report is really our financial statements which were prepared by my auditors as Receiver, Touche Ross, and I have here with me today Mr. Patrick, the resident senior partner of Touche Ross, in case there are any questions concerning their report.

I would like to emphasize that this is covering a period of nine months, this first report . . .

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Well, apparently Mr. McGill doesn't have one of the reports that is in . . .

MR. MCGILL: I have The Pas Forestry Complex.

MR. CHAIRMAN: You have? Okay. That's just what -- we're just having a general perusal of the report from the . . .

MR. HALLGRIMSON: The Forestry Division.

MR. CHAIRMAN: That isn't the report; that is actually -- your report is a monthly report.

MR. MCGILL: Oh, well then I haven't got the other one. I'm sorry, Mr. Chairman, I thought that this was the report.

A MEMBER: Causing a lot of trouble this morning aren't you Mr. McGill?

MR. CHAIRMAN: Let's proceed. Okay, would Mr. Reeves have that distributed please. Thank you.

MR. HALLGRIMSON: I can perhaps begin because this report isn't what we're discussing at the present time. Of course as you probably all are aware, effective the 1st of October '73 the assets in the receivership were transferred to a new Crown corporation pursuant to an agreement entered into with the Trustee in Bankruptcy and which was confirmed by court order. The consideration payable to the Manitoba Development Corporation, which was also a party to this agreement, has, as provided in that agreement, yet to be determined. A number of events have to take place I think before we can determine this, including the report to be received from the Commission of Inquiry, as you know, which was established to look into the whole matter of The Pas Forestry Complex.

During this nine month period our shipments of paper and lumber for the complex generated \$21 million approximately. In gross sales revenue for the first nine months an increase of \$7.9 million over the same period in 1972. Pulp and paper shipments totalled 78,053 tons and produced gross sales revenue of \$14.8 million compared to shipments of

(MR. HALLGRIMSON cont'd) 60, 902 tons and sales revenue of \$9.8 million for the same period in 1972. Lumber shipments amounted to 38, 855, 000 board feet in the first nine months of 1973 and produced gross sales revenue of 6.9 million dollars compared to shipments of 28.3 million board feet and sales revenue of \$3.9 million for the same period in 1972.

North American demand for the products produced by the complex improved during 1973 and the improving trend is continuing into 1974, especially in relation to paper products. There was a decrease in the price of lumber toward the end of '73 but this has improved in the last month. I think in recent years the price in 1973 assumed all time highs. The average gross selling price for paper in '73 was \$190.00 per ton versus \$161.00 per ton in 1972, and when I give you the report for this last six months I think I can show you some dramatic increases.

MR. CHAIRMAN: Was that - you said \$190.00, it says 178.

MR. HALLGRIMSON: Sorry. The average gross selling price . . .

MR. CHAIRMAN: Oh I'm sorry.

MR. HALLGRIMSON: . . . is \$190.00 per ton versus \$161.00 per ton in 1972. During 1973 the average gross selling price rose from \$173.00 per ton at the beginning of '73 to \$200.00 per ton at the end of the nine month period. The average gross selling price for lumber in '73 was \$178.00 per thousand board feet versus \$140.00 per thousand board feet in 1972. The improvement was largely attributable to a higher demand and selling prices in the U.S. market.

Page 2 - Operating highlights during the first nine months in 1972, the level of production in both the pulp and paper division and the lumber division increased considerably. The average daily production of paper for the period covered by this report increased by approximately 30 percent over 1972. There was a similar rate of increase in the daily lumber production. Major equipment additions during the period were kept to a minimum. Management's attention was directed at improving, at higher efficiencies. This basic philosophy is continuing with the hope that further improvements in the level of production, combined with a reduction in the cost of production, will continue to be achieved despite pressures of inflation.

Financial highlights - The cash profit before interest and depreciation for the nine month period amounted to \$1.4 million. If the interest payable to the Manitoba Development Corporation of \$2, 031, 000, and depreciation of \$441, 000 is taken into consideration, the loss for the period amounts to \$1, 021, 000. Operations for the full 12 month period in the year 1972 resulted in a loss of \$7.6 million after providing for interest payable to the Manitoba Development Corporation of \$2.1 million and depreciation in the amount of \$492, 000. If the interest and depreciation is eliminated, the negative cash flow in 1972 was approximately \$5 million. It is quite apparent therefore that there has been considerable improvement in the financial results of the operations for the period covered by these statements over 1972. I am also pleased to report that the situation continued to improve for the remaining three months in 1973, and is continuing to improve up to the date of this report.

I wish to make clear that the amounts of interest referred to above represent interest payable on advances made by the MDC to me as Receiver and do not include interest on advances made by the Corporation to the original owners prior to receivership.

Over the review period the total direct employees rose to 800 and an additional 200 people are employed by the contract cutters and haulers.

In the section here called New Developments, which concerns a couple of projects that we have in mind and have approved, one is - in our specified area there are a number of crowded stands of small diameter mature Jack Pine that have no potential for pulpwood or saw logs and occupy large areas of otherwise productive forest land. During the review period, to see whether the present market could support the capital necessary to install a fence post operation and treatment plant at the mill site, an experiment was conducted to evaluate the feasibility. A total of 80, 000 fence posts were prepared by a local contractor from trees in our specified area, custom treated at an existing treatment plant, and sold by us in the prairie region. This experiment proved the feasibility and profitability of such a project, and we are now considering the installation of the necessary equipment to implement this project.

2. With increased levels of production in both its sawmills and the pulpmill, larger quantities of bark, sawdust and wood waste are being generated. With the present energy crisis and its effect on the supply and cost of Bunker "C" fuel, it is most important that we conserve in the usage of oil fuel. Our present capability to convert bark, sawdust and wood waste into processed steam is not large enough to fully utilize the quantities of this fuel that are available to generate steam and reduce oil consumption. To overcome this lack of capacity

(MR. HALLGRIMSON cont'd) the new corporation has decided to add a second power boiler, which not only increases the bark burning capacity but also provides insurance against down time in the event of the failure of the single existing power boiler.

Now that completes the summary of the nine month period ending the 30th of September.

MR. CHAIRMAN: Summary pass. Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I'd like to first express my intrigue at the curious nature of the accounting in terms of not in any way including some estimate of the cost related to the liabilities accrued prior to 1971 under the original investment that went into the CFI complex, because it does seem to indicate that when you come up with your financial statement the profit and loss picture that you show obviously doesn't include any interest or depreciation that is on that original investment, I gather, in terms of the statement.

MR. CHAIRMAN: Mr. Hallgrimson.

MR. AXWORTHY: Well is that correct, Mr. Hallgrimson?

MR. HALLGRIMSON: That's right, Mr. Axworthy.

MR. AXWORTHY: Could you explain why that was done this way, and particularly can you give us a more realistic financial picture if you had to take into account those original liabilities, that we would have a truer picture of the financial state of the complex as it now exists.

MR. CHAIRMAN: Mr. Hallgrimson.

MR. HALLGRIMSON: The answer is no. I don't think that I can give you that information because I think it depends on an expertise, which I don't pretend to have, and that is to value the physical assets at The Pas. As you know, there is a Commission of Inquiry which was constituted to look into this aspect. It also is of course quite evident that if you have followed the newspapers and some of the accounts of what has taken place before that inquiry, that perhaps there has -- that the cost of the complex is perhaps higher than it should have been. Just what that figure is, of course, is open to conjecture and until that is established we have always followed the practice since Receivership, of reporting really on a cash basis, because otherwise we would be introducing something into the statements which might or might not be correct.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Do you mean then, Mr. Hallgrimson, that we presently do not know how much capital was passed from the Manitoba Government's financial lending agencies both . . .

MR. HALLGRIMSON: Oh no. No, Mr. Axworthy. We definitely know the amounts and I can give you the amounts of money that have been advanced by the MDC which have been advanced to me as Receiver.

MR. AXWORTHY: No, I'm talking about the period prior to 1971.

MR. HALLGRIMSON: Yes.

MR. AXWORTHY: We do know that?

MR. HALLGRIMSON: Yes.

MR. AXWORTHY: Well, is it possible then to give a rough estimate, and I don't necessarily require going down to the exact dollars and cents but a close proximation of what the financial picture would be if you were required in some cases to be paying interest and depreciation on that capital that was originally loaned? What kind of financial position would that complex now be in if you were being required even in a . . . way to return . . .

MR. HALLGRIMSON: Well, I think perhaps . . .

MR. AXWORTHY: . . . at least interest and depreciation on that original investment.

MR. CHAIRMAN: Mr. Hallgrimson.

MR. HALLGRIMSON: I think perhaps that this might be better viewed if I were allowed to give the current picture, which I think - because earnings enter into this question and I think this other report that's been distributed gives you a better up-to-date picture of the earnings of the complex, and that is certainly a factor to take into consideration as to what the operations can bear; you know, that the assets might be worth \$100 million but the complex itself maybe cannot hope to carry that, certainly as an interest or a . . . flow, but I think if I were allowed to go through that, then that might give you a better up-to-date picture of the earnings, but as far as a valuation is concerned, as I said before I don't think I myself am in a position to say definitely what the value of those assets are, because it depends on a number of things. It depends on what approach you want to use. You can value something on the basis of earnings, you can value it on the basis of replacement cost, you can value it on the basis of what actually was incurred, despite the fact that perhaps it was an inflated cost.

MR. AXWORTHY: Well, Mr. Chairman, I'm quite prepared to have Mr. Hallgrimson give the second part of his report if I can reserve the right to come back to this line of questioning when you have completed that statement so we can perhaps get some answers on that.

MR. CHAIRMAN: I think that's agreeable. Mr. Green.

MR. GREEN: Well, just so that there is clarification as to what Mr. Hallgrimson has been reading from and his accounting, I take it that this first report that you've dealt with is the Receiver's report of your operations which, my understanding, is filed with the court which appointed you as Receiver.

MR. HALLGRIMSON: That is correct, sir.

MR. GREEN: So that this particular report deals with your activities as a Receiver and what occurred as a result of those, or during those activities.

MR. HALLGRIMSON: That is correct, Sir.

MR. GREEN: And I think that that explains the accounting. The accounting was really of your receivership, not as to what Mr. Axworthy was referring to, that is the total financial picture of the complex.

MR. HALLGRIMSON: That is correct.

MR. GREEN: I take it that the new reports that you're talking about will be relative to the assets being changed over and you then acting as Chairman of the Board of Directors of the Manitoba Forestry Resources Limited.

MR. HALLGRIMSON: That's correct.

MR. GREEN: It's also my understanding that the question of valuation etc. that Mr. Axworthy is quite properly referring to, was being held in abeyance pending the report of the present Inquiry Commission into the total activities at the Forest Complex.

MR. HALLGRIMSON: That is my understanding.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, I have a couple of questions for Mr. Hallgrimson. One is, at the present level, 347 tons per day, and also I think the 38,600 feet of board per day, what kind of life can we expect out of our forest reserves if we maintain this type of production both in the lumber part of the production as well as the paper, pulp and paper?

MR. CHAIRMAN: Mr. Hallgrimson.

MR. HALLGRIMSON: Well I should perhaps explain that our cutting area, the cutting area which was granted to the previous owners of this complex, comprises 40,000 square miles. For some period of -- (Interjection) -- pardon me,

MR. CHAIRMAN: Just somebody else talking.

MR. HALLGRIMSON: Just recently a forestry inventory, which was being carried out by the Department of Mines and Natural Resources, was completed and we have been informed by that department that the annual allowable cut in the area will be 90,000 cords of wood per year. As you know, an annual allowable cut is a figure which theoretically at least, you're supposed to be able to cut in perpetuity and still be able to generate that amount of wood per year.

We are using 300,000 cords of wood, so I think the answer to your question would be that, Mr. Minaker, that we could keep this production up indefinitely without any question.

MR. MINAKER: Well are you then suggesting, Mr. Chairman . . .

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: . . . through you to Mr. Hallgrimson, that if we're only using 300,000 now and we're almost at full capacity of the paper processing portion of the plant, that we could actually triple the production and still fall within the perpetuity of that forest reserve in the north there.

MR. HALLGRIMSON: I guess theoretically that would be possible.

MR. MINAKER: It wouldn't be that accurate; there is some comparison that we could more than double . . .

MR. HALLGRIMSON: It may be that some of this wood might be so located in such a manner that it would be uneconomic to take it out. I think one would have to be sure that the cost of the wood didn't escalate to a point where it became uneconomic, and I'm not sure that you could cut 900,000 cords and still do that.

MR. MINAKER: Mr. Chairman, one other question . . .

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: I don't know whether it's a fair question to ask at this time, but at what production level do you feel that this process or this complex would turn the road and start to

(MR. MINAKER cont'd) make a profit? In other words, if we doubled, would we have to double the production or . . .

MR. HALLGRIMSON: Well I would certainly say that under present conditions, prices, and if I can go through this I can indicate how prices have escalated even in the last six months and how our profit position has increased. Under present conditions certainly doubling would undoubtedly make it profitable, or viable under ordinary circumstances.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I just have one question related to this report, not to the previous line of questioning. You talk about employment rising to a sum of 800 and an additional 200 people as contract cutters. Is that an average 800 or is that a high, and if so, what is the range of employment that's been experienced in the permanent work force?

MR. HALLGRIMSON: Mr. Axworthy, I'll tell you that it fluctuates, and especially in woodlands it goes up and down, but I can give you the figures on . . . We have three divisions, we operate under three divisions. There's the pulp and paper division, the sawmill division and the woodlands division, and in the - I just can't find it right now, I'm sorry.

MR. AXWORTHY: Well perhaps, Mr. Chairman, Mr. Hallgrimson could have one of his people look that up later.

MR. HALLGRIMSON: I'll try and find it later; it's in here somewhere.

MR. AXWORTHY: Could I then ask an additional question that perhaps while the information's being gained . . . I would also like to know what the actual salary payouts were for that work force in The Pas Region. What in fact has been going in in the way of wages and salaries, and being in a sense reinvested back into The Pas area, and I'm wondering if that kind of economic information would be available?

MR. HALLGRIMSON: I don't have that but I can - can you get that information?

MR. CHAIRMAN: Mr. Enns.

MR. ENNS: Mr. Chairman, Mr. Hallgrimson, I would like to ask just a few, very kind of basic questions that may seem rather uncalled for, you know, at this time, but in view of the deal, you know, the many things that have been said about the complex, I think that they should be asked anyway. My first question is simply this: In your experience now as the Chief Administrator of the Complex for some time, both under its receivership and I understand now as Chairman of the Forestry, the new Corporation, the Manitoba Forestry Resources Limited, would you care to comment on the kind of a plant that you have there? Would you consider it to be a modern, up-to-date, well-equipped, forestry complex plant that you have in The Pas?

MR. CHAIRMAN: Mr. Hallgrimson.

MR. HALLGRIMSON: Well I'll deal with that. As I have explained, it's an integrated forestry complex which is comprised of a pulp, and we call it pulp and paper mill which has a capacity of producing either paper or pulp. It's a one-machine plant, which means that we can only produce either pulp or paper. As a matter of fact we started out producing both, switching over from one to the other, and found that there were too many difficulties in doing this and decided that we would produce only paper.

As far as the pulp and paper mill is concerned, I have been told - I'm not as you know, my background is not in this industry; I'm not an expert on mills - but I've been told by people who are knowledgeable that the pulp and paper mill is a good little mill. That's about the description that they give that it's quite standard; it's nothing outstanding. It has a feature to it which is a little unique which other mills producing the same paper don't produce in North America; it has an extensibility to it, the bag is in front of you. This is introduced by the fact that it has a drying process which is known as a flack dryer. The paper goes through it and is dried with the least amount of tension; this gives it an extensibility and makes it a little stronger. In other words our 50 lb. paper is perhaps stronger than somebody else's 50 lb. paper, and in a multi-wall bag they might be able to, instead of using three 50 lb. bags, three 50 lb. sheets of paper, they can use two 50's and one 40. This is an advantage and it's a feature to our paper and as far as the paper is concerned, I've been told by our customers that the paper is excellent.

The sawmill is a little different. It was quite an unusual concept. As you know, there is this huge building which covers 11 acres of land, quite an expensive proposition. It's quite nice since it was done. It's nice to have everything under one roof. It's the area that was the furthest away from completion when we came there on January 7th; there was virtually nothing in there; the building wasn't even completed. There was nothing but plywood out there, despite

(MR. HALLGRIMSON cont'd) the fact that roughly \$8 million had been advanced on the loan and there was only one draw-down left. This is the situation, so we had to pretty well start from scratch. There was some dry kilns in there and a planing mill and, of course, there was the small sawmill, what we call a small sawmill, chip and sawmill, which had been actually operated. I'm talking now about the larger sawmill.

We now have a sawmill which we've brought up, we've brought it up in stages. The original owners had equipment there which would have meant that there would have been three or four bandsaw lines installed but the information we had when we came there that this wasn't appropriate; this was more in line with what you would have expected of a sawmill out at the Coast to use, that could expect much larger logs, but with our logs we needed other type of equipment. We built it up in stages until the point now where we have what you might call three lines in there, and we're producing again an excellent, the lumber is excellent, of excellent quality, beautiful lumber. It's a product of a slow growth; it's very strong, strong fibres. The knots in it are small and it has a good market . . .

MR. ENNS: Good sales potential, good market.

MR. HALLGRIMSON: So if you want to talk about the James Bertram plant - of course that's the thing that has never made much sense, and we made an early decision not to do anything about it. We have attempted in the last two and one half years to try and interest somebody in using that plant. Hydro has tried very seriously to interest somebody in manufacturing components for some of their equipment up there, but this proved unsuccessful. What we have under view at the present time is to possibly start the thing up on a modest scale. Of course, it's an excellent maintenance facility for the complex, but based on what it would cost, of course, this wouldn't justify its cost, but we're thinking of perhaps establishing a modest machine shop up there, which hopefully we could build up and maybe provide 25 or 50 jobs.

MR. CHAIRMAN: Mr. Minaker. Pardon me, Mr. McGill.

MR. ENNS: Sorry I'm still on . . .

MR. CHAIRMAN: Mr. Enns, still on. Mr. Axworthy on a point of order.

MR. AXWORTHY: Yes. Just before this particular line of questioning continues related to the value of this nice little plant, I'm wondering if it is possible to have the second report issued on the capital statement of the Forest Resource Industries, because I don't think it's possible to judge value unless you are also relating it to the capital expended. In other words, you can talk in sort of subjective terms about how nice it may be, but you can't make any effective evaluation until you've got some kind of cost sheet in front of you as to the capital that's required to build that nice little plant. So I'm wondering if Mr. Enns would like to restrict his question until we can get a report on the Forest Resource Industries itself, and go back to his question of relation of value to the capital invested.

MR. CHAIRMAN: Well, Mr. Green, on the same point of order?

MR. GREEN: Mr. Chairman, on the point of order. I think that everybody on the committee's entitled to ask general questions. I think if Mr. Axworthy is worried about subjective sort of analysis that's made on those questions, that that probably will come forward from time to time and with different versions from different people, but one of the things at committee I was hoping members would be able to do would be to ask a wide range of questions concerning the report of the complex generally.

These questions would probably be asked whether or not the additional statements are received, and then I would expect that different people would have different ideas on their mind as to what they reflect. I don't think Mr. Hallgrimson is trying to reflect anything except to give answers.

MR. CHAIRMAN: Mr. Enns, proceed.

MR. ENNS: Thank you, Mr. Chairman. I would prefer to continue with a few general questions that I have in mind. I ask the kind of general questions to Mr. Hallgrimson because there is some genuine confusion in the minds of some of the public who on reading some of the more successful aspects of the complex, its terms of its current sales and its employment record, who find it a little difficult to understand why this is possible with the pile of rusting junk up north, but nonetheless I appreciate the general overview that you have given us on this. I also appreciate Mr. Axworthy's comments that that of course has to be equated with actual figures and its worthiness . . .

Now one further question that I'd like to ask in a general vein, which has also concerned the general public right from the initial concept of the project, is a question that was touched

(MR. ENNS cont'd) on by my colleague Mr. Minaker. Do you have any firsthand information? My information is also that in the terms of the forestry biologists that there is a hope, or at least some reason to consider that the second generation of growth would in fact produce a better stand of timber than the initial cuts that you're cutting now. Do you have any information to support that?

MR. HALLGRIMSON: No, Mr. Enns, I've never heard that, but I wouldn't dispute it, but I can't confirm it. I've never heard that suggested before; but that doesn't mean that it isn't the case.

MR. ENNS: But then just to underline again the point that was raised in your answer to Mr. Minaker, certainly at current levels of production, and even I think with the perhaps hopeful projected, you know, levels of production, there would seem to be an adequate supply of timber resources available for that complex to operate indefinitely.

MR. HALLGRIMSON: I agree.

MR. ENNS: I think that's, Mr. Chairman, an important point to make because that too was a matter of question in the minds of many Manitobans from time to time.

I have one final question to you, Mr. Chairman, Mr. Hallgrimson, at this time. Why the decision to go to paper production as compared to pulp when there is at least in the minds of some people, that in pulp the plant might be operating at a more profitable level?

MR. CHAIRMAN: Mr. Hallgrimson.

MR. HALLGRIMSON: Well that possibly could be the case with the current price levels. We made this decision; it was over a year ago, and I think that it was the right decision, because I think in producing paper we have a unique product, while if we were producing pulp I don't think our pulp is different to anybody else's, and there might be some advantage there.

MR. ENNS: You haven't done a cost analysis as to whether or not that statement that I made, just made, could be verified or it could be true. Could the complex be . . .

MR. HALLGRIMSON: No. There's no study. All I know is that there are some very good pulp prices. Of course, you hear all sorts of prices. There are spot prices, which you can only obtain on one transaction. I don't think anybody would want to build a business on that. We have adopted a philosophy that we're trying to establish a permanent business. We are establishing relationships with people who we - and we even have contracts with them over a period of time, and you just can't switch from one to the other. You can't just drop your customers because, as I say, I'm not even necessarily accepting the fact that we would do better by producing pulp.

MR. ENNS: That's the question I'm asking really. I don't know either . . .

MR. HALLGRIMSON: Well we haven't conducted any such study. We're producing paper; we're pretty well committed to paper now, I would say, unless we were to expand; we're pretty well committed to paper now.

MR. ENNS: One further question, Mr. Chairman, if I can. As a rancher I am happy that you are going into fence posts. We always need them out in the cattle country. But really seriously my question is: On Page 3 of your report, New Developments, as well as Page 2 of your Manitoba Forestry Resources report, you indicate the corporation has approved a number of capital expenditures which would, when completed, help to increase the profitability of the operation as follows, and then you indicate the installation of a second power boiler, of an installation of a fifth digester, evaporator, and the erection of addition dry kiln capacity in the sawmill. Have you, or are you in a position, Sir, to put any capital amount on that expenditure, the cost of that expenditure?

MR. HALLGRIMSON: Yes. The power boiler is \$3.8 million, the digester, there should be commas in there, that's a digester, evaporator and a washer; those are three different things. I think the figure is something over a million dollars.

MR. ENNS: For all three?

MR. HALLGRIMSON: Yes. And the dry kilns I think is \$400,000.00. So we're talking in the order of something over \$5 million.

MR. ENNS: . . . just a little over \$5,000,000. Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Mr. Chairman, I think the report, and Mr. Hallgrimson mentioned that there were about a thousand jobs related to the operation directly in the north. Is that the current position, about 800 employees and 200 on contract?

MR. HALLGRIMSON: Mr. McGill, I found the information that I was looking for and I

(MR. HALLGRIMSON cont'd) think it's . . . in the pulp and paper mill there are 340 employees. Now that's pretty well static. In the lumber mill there are 320. Now it's in the Woodlands where it goes up and down; this winter hasn't been too good. The conditions out in the Woodlands have been very hard, there's been a lot of snow, and a lot of the cutters are just tired and they quit and it goes up and down. The last figures I had was 520 which makes a total of 1,180. This includes contractors who are cutting wood for us, too, so that that would be out in the Woodlands, 520 people in Woodlands would not be all direct employees.

MR. MCGILL: I see. Mr. Hallgrimson, there has been discussion and I think it's currently under consideration, the possibility of doubling the capacity of the mill at The Pas. What would that do to the job situation if that were to be proceeded with in the complex? Could you just give us a rough estimate of how many additional jobs that might create?

MR. HALLGRIMSON: I'm afraid that I can't give you that answer. I don't know. One of the reasons for such an expansion would be, for instance, in the pulp and paper mill, would be that we wouldn't require as many employees and thereby our costs would go down. We would require more employees but I have no feel for that and I'm afraid I'd have to await a feasibility study to give me that answer. If we were to increase the capacity of the pulp and paper mill, I I'm not sure that it would necessarily mean that we would be doubling our sawmill capacity, that wouldn't have to necessarily be the case, and until we had a feasibility study I really wouldn't have any definite information.

When you talk about doubling, of course, what we're talking about is the possibility of an expansion of the mill. It doesn't necessarily have to be identical to what we have there. I mean, this is one of the possibilities. It would certainly make a lot of sense, because it takes awhile to train people. I mean this is why it's taken some time to get our production up say to the 350 capacity, I say one of the reasons, because you have to train people and if they were to do the same thing they are experts in that field already and they know this area. But it doesn't necessarily have to be a doubling of the - you know, an identical doubling. Hopefully it would include some other capability to give us some leeway when the market tightened. For instance, we would like to see a liner board or something capability.

MR. MCGILL: Mr. Hallgrimson, you mentioned in relation to the employees that it was difficult to estimate how many new employees would be involved in an increase or doubling. Tell me, you did have a problem with turnover of employees at the plant up there. Is there any stabilizing of that problem at the moment, are you finding that your employees are tending to remain longer on their jobs in that area?

MR. HALLGRIMSON: Yes I can give you some figures on that. It's improving. In the pulp and paper mill, the latest figures on that, that there's a turnover of one and one half percent per month which I am told is very good, that perhaps it's dangerous to talk about averages, that a normal figure might be 5 percent, that ours is one and one half percent.

The sawmill is higher and has presented more difficulties. The rate there is six percent per month but this has come down from a higher figure.

MR. MCGILL: How does one and one half percent compare with say International Nickel or Hudson Bay Mining and Smelting, have you any idea?

MR. HALLGRIMSON: No I have no idea.

MR. CHAIRMAN: Order please. Mr. Green.

MR. GREEN: My recollection is 100 percent a year at Inco, in other words they turn over the employee force. That doesn't mean that everybody turns over but they turn over . . .

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Yes, Mr. Hallgrimson, again on the subject of expansion. Have you a ballpark figure on the cost of additional machinery for the mill if the capacity were to be doubled?

MR. HALLGRIMSON: We have no precise figures, Mr. McGill. The only thing that I've heard in discussions with my General Manager, we've talked about this, that if it were doubled you're talking about \$50, \$60 million. But I understand right now, as you well know, capital costs are increasing at the rate of about one percent per month and I guess it depends upon when it would be done. But that's just a ballpark figure.

The other thing about, if we were to just simply double what we have of course this would be cheaper because we have . . . the engineering work is done and we would know exactly what we would want, the changes we would want made. There would be some savings in that respect.

MR. MCGILL: One of the original concepts of the James Bertram plant I understand was

(MR. MCGILL cont'd) the capability of fabricating paper-making machinery, Now if you decided to proceed with an expansion, could Bertram plant be used for fabricating machinery?

MR. HALLGRIMSON: Yes it could. I would not want to be taken to suggest that a paper machine could completely be made there but some of the rolls etc. could be made there.

MR. MCGILL: That was the intent, was it, of the plant as you understand it?

MR. HALLGRIMSON: The original intent?

MR. MCGILL: Yes, not only to be able to fabricate but to maintain the . . .

MR. HALLGRIMSON: As I understand, the original intent of the owners was to establish a paper machine making plant, yes.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I'd like to go back to some of the statements made by Mr. Hallgrimson. I gather in your statement that you said up to this date the James Bertram Company is a total write-off in terms of any utility derived from its capital, is that right? It is presently playing no profit producing function in . . .

MR. HALLGRIMSON: That's right, from an operating sense, it is at the present time.

MR. AXWORTHY: So there's just no use being made of that particular piece of facility?

MR. HALLGRIMSON: Not completely. We use it as a maintenance facility, there's some work done for the pulp and paper mill. It's very minor.

MR. AXWORTHY: I see. But in effect it's really not being used for anything at all . . .

MR. HALLGRIMSON: No, it's not in commercial operation.

MR. AXWORTHY: I see. Now I also gather from your previous statement that you said that you had to do significant retooling in the sawmill part of the complex to bring the equipment that's more appropriate to the kind of lumber and the kind of work that you're doing. Is that true?

MR. HALLGRIMSON: I don't know whether the term "retooling" is right. It was a question of the type of equipment, the type of sawmill equipment that was to be installed.

MR. AXWORTHY: Do you have an estimate of costs of that particular refitting then, if that's the case?

MR. HALLGRIMSON: Well I could give you the cost of the sawmill to date.

MR. AXWORTHY: Since you took over as receiver?

MR. HALLGRIMSON: Yes.

MR. AXWORTHY: Additional capital costs?

MR. HALLGRIMSON: Yes. I don't have that here--could you get that information?

MR. AXWORTHY: While we're getting the information I wonder, Mr. Chairman, if I can go on to another point. I see in the financial statement that Touche Ross and Company have appended to this report that since you took over the receivership, there has been no depreciation at all charged against the major capital facilities of the complex? There's not a page number here but it's called Notes to Combined Financial Statements for the nine months ended 30th September 1973.

MR. HALLGRIMSON: I think the answer to that question depends upon what statements you're talking about.

MR. AXWORTHY: Well it says . . .

MR. HALLGRIMSON: The statements that you are referring to do include some amounts of depreciation as I think I pointed out in my report--I deducted them to arrive at a so-called cash profit position. That would be depreciation on assets acquired after receivership. It would not include any depreciation on the capital cost prior to receivership. Basically I should say it, as I understand it, it's depreciation on Woodlands equipment.

MR. AXWORTHY: I see. That does not include depreciation on new equipment that you've acquired to make the sawmill operate more effectively? In other words you're not charging it against any capital equipment at the present moment.

MR. HALLGRIMSON: My understanding is that . . .

MR. AXWORTHY: I'm just going by what it says here . . . "above depreciation has not been recorded against the major facilities of the Pulp and Paper Division, the Lumber Division and James Bertram & Son since the period of receivership from January 7, 1971 to 30 September 1973 has been considered a start-up period and inordinately high direct costs have been incurred which have been written off to operations."

MR. CHAIRMAN: What are you reading from, Mr. Axworthy?

MR. AXWORTHY: There isn't a page number, Mr. Chairman, but it is Notes to Combined Financial Statements for the nine months ended 30th September 1973.

MR. CHAIRMAN: Receiver's report?

MR. AXWORTHY: Yes.

MR. HALLGRIMSON: I received clarification on this from Mr. Patrick. The assets on which depreciation has been claimed and incorporated in these statements comprises rental properties, we own four apartment blocks up at The Pas, we own a number of houses. So on rental properties, if you look at Notes to Combined Financial Statements - have you got that? Item 3. Fixed Assets reflected and valued at cost less accumulated depreciation consist of the following: And then there's certain logging facilities and equipment, camp buildings, other equipment, roads and railspurs and other equipment totalling 6-1/2 million. This is actually equipment used in the Woodlands operation and he has included that but he has not included any depreciation or charged off any depreciation on . . . control.

MR. AXWORTHY: The reason that I'm pursuing this line of questioning, Mr. Hallgrimson, is that you had talked and other members of the committee have suggested that perhaps there is a basis for expansion of the Complex and to developing new facilities and I think that it's incumbent that before such expansion takes place we have a pretty clear picture of the capital position of the Complex and whether expansion is justified in relation to the value that's gone into it. The kind of point I'm trying to aim at is if we're to make some assessment of the potential expansion, I think we have to again go back to what kind of costs have to be written off first, before we can in a good business sense proceed. Because I think that link connects in with the role that MDC presently plays in terms of advancing moneys to the Complex and what the advances are for and if expansion is going to be made, what kind of security and write-offs are required. Now I'm wondering, in terms of your discussion of expansion have you taken into account those factors and are you fairly certain that all other things being clear that there is still good financial reason for undertaking expansion at the moment?

MR. HALLGRIMSON: No I'm not. That, Mr. Axworthy, would be the purpose in a feasibility study. All I am suggesting is that there be a feasibility study, I'm not committing myself to the fact that there should be an expansion. I would expect the feasibility study to take account of the factors that you're talking about and I would agree, and hopefully by that time, I imagine whoever is retained to do the feasibility study would want to have a very good idea about the present facilities there and just how they were doing in relation to some realistic figures on what the capital costs should be and what write-offs there are.

MR. AXWORTHY: Mr. Chairman, may I pursue just one other line of questioning before we leave . . .

MR. CHAIRMAN: Proceed.

MR. AXWORTHY: I would like to also raise the question about the economic picture of the Complex in relation to the larger national picture which is obviously being subject to increased costs through energy problems, particularly a Complex which is located far north which relies on transportation for its means of reaching a market, as well as I gather, you still use a fair degree of solid fuel or liquid fuels as a means of providing energy for the Complex. What is your anticipation of the increased - do you see increased difficulties in effect because of the inflation that we're now experiencing in energy and transportation costs and how will that affect the operation of this Complex?

MR. HALLGRIMSON: Well I don't see that our problems, you know, are any different to anybody else's. You know, you mention location. I don't think that our facility is any more remote than many other mills; pulp and paper mills are in some pretty remote locations.

Now as far as the inflationary pressures are concerned, well naturally I think it's obvious that certain costs will increase. Like you mention, we use quite a bit of bunker "C" fuel. One of the purposes in the second power boiler is to try and cut that down by burning what we call hog fuel, sawdust and bark, etc. waste materials. I guess there will be continuing rising labour costs, etc., but I think in many respects, as I understand it in talking to people in the industry, we have, for instance, in the cost of wood less problems than a lot of people do. Our cost of wood is less than some eastern mills who are facing extreme difficulties in that regard. So my impression is that there is a very good outlook for the forestry industry. There apparently is a shortage of wood fibre in the world and that is going to continue for some time. Apparently in Europe, Scandinavian countries they have exhausted their supply of forests. Apparently they have no more capacity to bring on. Russia apparently has, of course, great timber resources but they're in inaccessible areas, and apparently the Russians aren't that quick to react to an economic situation like this.

MR. AXWORTHY: We know the reason why.

MR. HALLGRIMSON: But to answer your question. I think these are obviously matters that will cause concern but I don't think we are in any peculiar position.

MR. AXWORTHY: Mr. Hallgrimson, what kind of marketing system do you use? Do you work through agents, do you have your own marketing organization, are you assisted in any way by marketers from the Department of Industry and Commerce? Could you explain that?

MR. HALLGRIMSON: No, very early after receivership we of course had a number of things to be concerned about which were not normal. We inherited a facility which was not complete, we had to complete the facility, we had to bring it into production. We felt that the wisest course was to engage agents to act on our behalf in this field, in the marketing of the product.

In pulp and paper, the previous owners had made an arrangement with Price and Pearce which is an international organization and very well known, located in New York, Price and Pearce Incorporated, and they are our agents in the American market for pulp and paper--for paper; we don't sell any pulp now so we can refer to it as paper.

We have in Canada Consolidated Bathurst which, as you know, is a pulp and paper company located in Montreal and they are our agents in Canada for the sale of paper.

Lumber. MacMillan Bloedel act as our agents outside of Canada. We sell our own in Canada. They were our exclusive agents but we've changed that, we are now our agents in Canada.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, I had just a few questions for Mr. Hallgrimson. First of all, I wonder, could he indicate what normally the fiscal year will now be of the company?

MR. HALLGRIMSON: It will be October 1st to September 30th.

MR. CRAIK: And it will operate now . . . on that basis. It's a little awkward to compare the statements in the report that's given because one is nine months and the other is twelve. Can you indicate now on the basis of your added information how the statement would have looked if it had been taken to the end of '73?

MR. HALLGRIMSON: Well I can do that. I still would prefer to complete this report here because I think this gives you the--and then I can give you some figures on a calendar year basis after that. Would you . . . ?

MR. CRAIK: Yes, that's fine. It's just so that we can get some comparison on what . . .

MR. HALLGRIMSON: That's right and I can give you all kinds of--but I think if we could get through this it would be . . .

MR. CRAIK: I gather from your . . .

MR. CHAIRMAN: Mr. Craik, I'll have you on the list. Possibly we could proceed and have that . . .

MR. CRAIK: Yes. Well I have some general questions other than the specifics to the--regarding the statement. Do you have available to you the Technopulp Company studies that were done, the feasibility studies that were done, the whole project?

MR. HALLGRIMSON: Yes, of course you're entering into a field that is quite controversial. My understanding that there are no studies with respect to what was really built there. There were a lot of studies but, you know, they're on newsprint. You know, I saw a picture of Dr. Kasser who is not very tall and he had studies this high but all of them pertained to something that wasn't built at The Pas, you know, like the newsprint mill and a bleached saw pipe mill and a number of other things but . . .

MR. CRAIK: Well you referred to feasibility studies on optimizing mill size, but was there not studies done by Technopulp that, you know, showed an optimum mill size - assuming that the sustained yield was there for the forestry resource - of around 600 tons at The Pas rather than the, you know, 350 that was built initially?

MR. HALLGRIMSON: Well I'm not an expert on what feasibility studies there were. This has been a subject matter of - an evidence before the Commission of Inquiry and I'd rather not express an opinion on it. My understanding is that there was never a feasibility study for what actually was built at The Pas.

MR. CRAIK: For the entire - any of the aspects of it?

MR. HALLGRIMSON: That's right. Including the sawmill. But my work as Receiver didn't really, you know, require me to be studying feasibility studies.

MR. CRAIK: So I gather that even if they did exist, they haven't been utilized by the . . .

MR. HALLGRIMSON: Well. I'd rather not comment because I think it's beyond the realm of my duties to be discussing.

MR. CRAIK: You more or less just picked it up as it was handed to you when the thing ended and then you . . .

MR. HALLGRIMSON: Well we inherited an uncompleted mill and there were some drawings and we completed the mill. As I mentioned previously, the sawmill, there was nothing, there was no design work on any saw lines for that sawmill. There was never any feasibility study on it and we had to engage people to complete the design work on the saw lines and . . .

MR. CRAIK: In overall terms the mill, there was some speculation about its capacity of performance but it appears you're running at about what was stated as the original design capacity at least.

MR. HALLGRIMSON: That's right.

MR. CRAIK: Around 370 tons. And your sawmill is running at about 80 million board feet a year?

MR. HALLGRIMSON: That's right.

MR. CRAIK: And that was what was originally stated as their objective, was it not?

MR. HALLGRIMSON: Oh I think they talked about a hundred million.

MR. CRAIK: Yes. So it's within--it started out at 30, I believe, or started out at 15 or 30 and escalated to . . .

MR. HALLGRIMSON: Well it's a small sum though and I think there's 25 to 30 million board feet.

MR. CRAIK: Coming back to the original question, can you go to 600 tons in that area with sustained yield?

MR. HALLGRIMSON: With what?

MR. CRAIK: With sustained yield of your forestry resources?

MR. HALLGRIMSON: There's no question about that. The allowable cut is 900,000 cords. Mr. Craik, you can pretty well assume that for a ton of paper you need two cords of wood, and I think for a thousand board feet of lumber up there because of the size of the logs you need about 3 cords of wood. But then we recover chips of course from the sawmill, the sawmill provides over 50 percent of the wood usage in the pulp mill. In order to produce what we're producing today, we're using something over 300,000 cords. To double it would probably be some 600,000 cords.

MR. CRAIK: Then I gather from an earlier comment that your cost of getting the wood into plants, that there are some problems in eastern plants, I heard you say, in obtaining their resource at an economical value. Does this indicate that you appear to be competitive as far as getting the resource to the plants concerned from the cutting area?

MR. HALLGRIMSON: Certainly at the present time we are and then I think this would be something to be dealt with in the feasibility study we would want to be very sure of that, that in order to get say, 600,000 cords that our costs would not escalate to such an extent that it would make it uneconomical. But I can't tell you that we can take--you know and at what costs, what the cost will be per cord to take out 600,000 cords. Obviously, we have to reach out further. Just this year our costs have gone up two or three dollars a cord because we were hauling a greater distance and our rates to the truckers have gone up.

MR. CRAIK: Running at capacity at the present sizes that you have, can you see what is likely to be your profit picture if you assume some averages for the industry on prices and so on?

MR. HALLGRIMSON: Well this is why--I think I can get that. If we went through this, this is for a six-month period and you can practically double the figures - if nothing happens you can double the figures, you can get an idea.

MR. CRAIK: So you're pretty well at capacity now and that reflects it, so that puts a certainly . . .

MR. HALLGRIMSON: Yes, of course it doesn't mean that you can't get another--as an engineer you'd know that the rate of capacity doesn't necessarily mean that you can't get a few more tons out of it. You might be able to get 20 or 30 more tons. You know, we produce at times, we produce 380 or 390 tons, 400 tons.

MR. CRAIK: Don't I recall that the original--some of the projections for reaching capacity and getting into a profit picture were 1975 and I can't remember whether it's after receivership or before it or when, but a 1975 date was used as a target date. It would appear

(MR. CRAIK cont'd) you've reached it earlier than anticipated if that's correct. Has the market played to your favour, you know, rather than against you in getting your capacity up this fast?

MR. HALLGRIMSON: Oh, I don't think that has anything to do - you know, the production has nothing to do with the capacity - or the market ability. I mean, we experience difficulties. I understand that at most mills it takes some time to get up to the rate of capacity. We have had our share of problems, and I don't want to get into them; some of them are controversial, there's no good purpose in going over that.

MR. CRAIK: Well it's probably more fair to ask you then, have you reached your capacity stage to your satisfaction. Should it have happened sooner or later, or are you about on where you think you should be?

MR. HALLGRIMSON: Well naturally I would have been happier if we could have achieved it earlier, but I'm happy now that we have achieved it and I think we've done a very good job. And I want to say here publicly that I think the people up there and the people that we have assembled have done an excellent job. I think our General Manager, we hired a full-time general manager, Mr. Modine who has done an excellent job. He came with us last February, a year ago last February, and we have assembled a very good team. And I might say that I think too that the fact that when these assets were transferred and the thing has been sort of stabilizing, that this has had also a good effect on the people who have been working up there and also may have contributed to this slow rate of turnover because we find now that a lot are buying their homes up there. They see it as a more stable situation.

MR. CRAIK: One final question. Have the federal grants for the plants been received?

MR. HALLGRIMSON: Yes, we have received part of the grants. An agreement was entered into with the Government of Canada to which the Government of Manitoba was a party and also this new corporation whereby the grant--providing for a grant of \$12 million - \$9.6 million of which was paid into the Trust Division of the Consolidated Fund and is there now earning interest. There's reference to it in the statements, there are certain conditions that have to be met and we have I think until 1976 to comply with them; in fact I can see that most of these conditions perhaps have been met already and it won't be too long until we qualify for the remainder of the grant.

MR. CRAIK: Does the interest on that show up in your operating statement or does it go into the . . . ?

MR. HALLGRIMSON: No, it has not been included.

MR. CRAIK: So there's a remaining two million odd yet from the federal . . .

MR. HALLGRIMSON: There's 9.6 or 2.4 million to come from the Federal Government. Of course that doesn't carry any interest. I'm talking about the interest on the \$9.6 million in the Consolidated Fund. But I take it our auditor has taken the position that it's until we become fully entitled to it that this isn't really our moneys because it could be subject to return if we didn't comply with the conditions.

MR. CRAIK: Well do you know at this point whether it will actually go to the new company or will it go towards paying off losses in the former company?

MR. HALLGRIMSON: I can't answer that question. It's there to the credit of the corporation, but under the agreement concerning the transfer of the assets, the corporation is to pay something for those assets and whether that forms a part of it or not is something that I can't answer at the present time.

MR. CRAIK: Thanks.

MR. CHAIRMAN: Can we proceed with that--Yes you're on the list and I thought possibly we can conclude the . . .

MR. GREEN: Next on your list.

MR. CHAIRMAN: And Mr. Minaker.

MR. GREEN: I see. Did you have me on your list as well?

MR. CHAIRMAN: No.

MR. GREEN: I'm sorry, I tried to get on your list.

MR. CHAIRMAN: Okay. Sorry. Mr. Minaker? Okay.

MR. MINAKER: Mr. Chairman, I wonder if I could pursue in general terms about the production capabilities of the paper plant. I see that you're running at about 98-1/2 percent, somewhere in that order, of production capabilities. Now Mr. Hallgrimson indicated that at times they produce 400 tons and at other times it varies. I think one of the general rules of

(MR. MINAKER cont'd) comparing the efficiency of a paper mill is the hours or the percentage of time that the machine runs - and I wonder, would you have that figure, the actual percentage of operating time of the machine over the period of operation? Is it 98.5 percent?

MR. HALLGRIMSON: Do you mean in number of operating days in a year?

MR. MINAKER: Yes, in other words the down time on the paper machine itself is usually an indication of the efficiency of the plant because I know some plants run in the order of 98 percent operating time on the machine. I'm just wondering what the Churchill plant . . .

MR. HALLGRIMSON: I don't have that figure. I'm sorry, I . . .

MR. MINAKER: Would you be able to get it?

MR. HALLGRIMSON: Oh, we could get that.

MR. MINAKER: And the other question I have, is it . . .

MR. HALLGRIMSON: But that would be reflected in these figures. I mean the fact that, for instance, I can give you the figure for March which we just received yesterday. We produced an average of 370 tons per day.

MR. MINAKER: No, what I was getting at--my question was that possibly if the machine time is only running at say 95 percent or 90 percent, that once the efficiency is further improved, if it's possible to get it up to maybe 97 percent - that the plant itself might be capable of producing over the year maybe 400 tons per day. Is this . . .

MR. HALLGRIMSON: Well this--certainly as efficiency improves it will be something over 350. How far I don't know, but my understanding is that it would be unusual to expect maybe more than 30 or 40 tons though. As far as the rate of capacity, I think this can be laid to rest. The Simon's people in Vancouver who actually designed that mill to a great extent have admitted in testimony before the Commission of Inquiry that its rate of capacity is 350 tons per day, and not 450 as Dr. Kasser has maintained.

MR. MINAKER: Mr. Chairman, Mr. Hallgrimson also indicated when he was talking about James Bertram plant that the thing is lying idle more or less right now. I'm wondering if Mr. Hallgrimson can advise us if any of the machinery has been sold to other corporations. Any of the machinery - has it been sold, and for how much, and to who?

MR. HALLGRIMSON: None of it has been sold, except one machine has been loaned to Saunders Aircraft.

MR. MINAKER: What would that machine be worth?

MR. HALLGRIMSON: I'm guessing now and just off the top off my head, I think somebody told me it would be worth 80 - \$100,000.

MR. MINAKER: I see. And what was it loaned for? What was the lease?

MR. HALLGRIMSON: It's subject to return whenever we want it.

MR. MINAKER: In original condition or at least repaired . . .

MR. HALLGRIMSON: Well I guess it's used. We haven't . . .

MR. MINAKER: The other question relates to the new Crown corporation. I believe the original corporation had special tax concessions with the town of The Pas. I was wondering - have those same concessions been transferred to the new Crown corporation or have you arrived at some settlement with the town of The Pas?

MR. HALLGRIMSON: This is a very complicated subject. You talk about the tax concessions - yes, this is true. It has to be observed that the tax concessions which were agreed to by the town of The Pas and which are ratified by Statute, pertain only to Churchill Forest Industries Limited. Dr. Kasser didn't see fit to extend that to the MP Industrial Mills, River Sawmills or to James Bertram & Son (Canada) Ltd. So that they do not enjoy any tax advantage. We, of course, then were faced with having to make some contribution to or payments to the town of The Pas right after receivership and we did so; we negotiated each year an agreement with the town of The Pas which I think was satisfactory to everybody concerned. I can't give you the exact figures but it's escalated each year. I think the first year it was something around \$100,000 and it's gone up to \$200,000. But that's ballpark figures I'd say.

MR. MINAKER: Mr. Chairman, then the tax concession is sort of negotiated yearly at the present time, that there is no firm concession that extends for a period of time other than for one year?

MR. HALLGRIMSON: Well other than this, this question of the concession which was given to CFI. It's possible that this will be transferred to the new corporation. I haven't had definite word on that as yet, what the position will be on that.

MR. MINAKER: The other question, Mr. Chairman, has the mill had any difficulty with

(MR. MINAKER cont'd) the Clean Environment Commission with regard to its effluence?

MR. HALLGRIMSON: None whatsoever. My information is that we have satisfied the standards and the program set down both by the Federal and Provincial authorities.

I should add the previous owners didn't have too much of an elaborate system in this connection and one of our major expenditures after receivership was to install a clarifier which cost over a million dollars and I think helped the situation considerably.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Mr. Chairman, to Mr. Hallgrimson. On a mill of this size and relatively a new business, there's usually a normal period of time that it takes to iron out the bugs and make the whole thing run smoothly. I remember reading that MacMillan Bloedel in a new plant in British Columbia took three years before - and lost a fair amount of money the first couple of years. Do you feel that you will attain your maximum profitability within the next year or so or have we reached that now, or . . .

MR. HALLGRIMSON: I would say that we've reached that point now except for of course if the prices increase and subject to what I told Mr. Craik, or Mr. Minaker, that possibly we can get another 15 or 20 tons or 30 tons out of the mill, that's if things improve.

MR. BANMAN: Have there been any studies done--this is with regard to the expansion of the mill now, I imagine you could expand the mill to a certain point and after that it doesn't become economically feasible any more. In other words, if you're going to double the expansion and double your cost of production, unless - it's profitable right now, wouldn't be profitable to that per se, but let's say if you increased the capacity by let's say 100 tons a day do you feel that you could operate it with very little more staff - is there a cut-off point where it does not become feasible?

MR. HALLGRIMSON: Well this is the point, I mean the capacity is 350 tons. If that mill had been say double or 600 tons it wouldn't take twice as many people to operate it. You have two types of costs, we have split them up. There's conversion costs and variable costs. Variable costs are wood, etc. This is entirely dependent upon what you produce. The other, conversion costs are more fixed, they are the labour costs, and it wouldn't take twice as many machine operators to operate two machines and this is where you can reflect your saving. It's very extraordinary for anybody to build a mill of this size today or even four years ago.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, I'm prepared to, if others are, to waive my questions until Mr. Hallgrimson goes through a very short report on the future.

MR. CHAIRMAN: We can proceed with the review of operations for the first half of 1974, fiscal year October 1, 1973 to March 31, 1974. Mr. Hallgrimson.

MR. HALLGRIMSON: Thank you, Mr. Chairman. This of course covers the period after the new corporation took over the operations commencing on October 1st. Paper production during the period totalled 60,269 tons. This indicates an average daily rate of 347 tons which is just short of the rated capacity of the mill which is 350 tons per day. If this performance is maintained for the remainder of the year a production figure of 124,000 tons should be attained. This would represent an increase of 18,000 tons over production in the 1973 calendar year.

Lumber production amounted to 38 million board feet or an average of 319,000 board feet per production day. The production in this division is also on target and if maintained for the balance of the year should result in yearly production of 80 million board feet.

Paper sales produced a gross revenue of \$14,323,000 and lumber \$5,238,000 making a total of \$19,561,000. The net cash profit before interest and depreciation for the six month period came to \$3,463,000.

This improved performance was largely brought about by the increasing profitability of our paper operations. This is not only due to increased productivity but also to increased sales revenue due to increasing prices and to a stabilizing of our cost factors due to the increasing efficiency of our operations.

Production levels in the lumber division have also exceeded expectations and have resulted in lower unit costs. However, due to a mid-winter slump in prices the profitability of this division has been below anticipated levels. Prices have recently regained the previous highs of last year and we are looking forward to a better performance from the division in the last half.

(MR. HALLGRIMSON cont'd)

We also experienced an increase in our wood costs this winter due to inflationary pressures and also in part due to severe weather conditions. This has less significance with the coming of spring although we can expect costs to continue rising due to our present economic conditions.

We will be receiving the benefit of further increases in the price of paper in the last half and if lumber prices hold their present levels we are optimistic that with the same excellent levels of production we will achieve the same or even better results in the last half of the year. And then I listed below - one of which I have already mentioned is the power boiler; secondly, the installation of a fifth digester, evaporator and washer which will increase our productivity to 410 tons per day; and three, the erection of additional dry kiln capacity in the sawmill. We have with this increased production reached the point where the existing dry kiln capacity cannot cope with the production and we're having to dispose of green lumber. And that completes that report.

Now I think I can get back to giving some figures, if I might just, Mr. Chairman. The gross selling price of paper in March of '73 was \$269 a ton; In December it was \$220 a ton; in 1972 it averaged \$161 a ton, and when we started out it was \$126 a ton. So we've gone from \$126 to \$269, and it's gone up further - effective April 1st there were further price increases so this indicates of course that the market is very buoyant and there is a great demand for our paper. There is just no question we could sell twice as much paper as we are producing at the present time.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Yes, well, Mr. Chairman, just - I'd like to first of all deal with some general questions as well, follow up some of the line of questioning that was made by Mr. Enns and Mr. Axworthy. First of all, I think I'd like to make it clear that I have always indicated a hope for a success of this operation. In no way have I ever tried to poor-mouth the pulpmill or the activity which we are in. My criticism from the outset had been with regard to the philosophy of the transaction not to the transaction itself and I would hope that the same attitude would prevail relative to other areas in which the public has seen fit to try to enter this type of field.

With regard to that very question and if we take the figure of \$100 million as a round figure, my impression is that we started operating and producing at this plant in the middle of 1970, approximately at that time, is that correct?

MR. CHAIRMAN: Mr. Hallgrimson.

MR. HALLGRIMSON: That would be approximately correct. It would be a little earlier than that I think, but it . . .

MR. GREEN: Well if we took the middle of 1970 we are now roughly four years from that date that we started?

MR. HALLGRIMSON: Yes.

MR. GREEN: And if we took the first year and tried to put forward an operational statement and included interest on \$100 million plus operational losses, the interest would be, if we took it at roughly 10 percent we'd have \$10 million, and we also had losses on operation of at least the equivalent of that because since then we've had to put in an extra \$30 million, so if there was an operational statement for the entire Complex based on an investment of \$100 million there would have been a loss of at least \$20 million in operations in the first year?

MR. HALLGRIMSON: Yes, it would . . .

MR. GREEN: And I think I'm being conservative, I think I'm using figures which are on the optimistic rather than the pessimistic side. --(Interjection)--That's right, I did not include depreciation on the equipment.

MR. HALLGRIMSON: Yes that would closely approximate . . .

MR. GREEN: I'm just guessing by the way but I think that my guess was based on reasonable factors. Therefore if one had presented this Committee with an operational statement in 1970 on a corporation in which the Crown has an equity, it would have shown a loss of \$20 million roughly, at least. The following year that loss would be somewhat in the same neighbourhood, \$20 million; and the following year it would possibly be somewhat less, maybe \$15 million?

MR. HALLGRIMSON: Right.

MR. GREEN: This year, you have indicated that we may be close to a break even point.

MR. HALLGRIMSON: For 1974 fiscal year?

MR. GREEN: For the 1974 fiscal.

MR. HALLGRIMSON: Yes.

MR. AXWORTHY: . . . relate to the original investment?

MR. GREEN: Related to the original investment.

MR. HALLGRIMSON: Well if you double this figure of \$3.4 million then it would be 6.8, I would say that with increased prices we might, you know, actually do better than that. I don't know what amount of investment that would justify but it would justify some investment, a considerable investment.

MR. GREEN: Well but the fact is that I think Mr. Axworthy has a valid point. There are two factors which have reflected your losses. One the interest payable and secondly, your loss on operations, that is the amount of money that you'd have to put in because of your short cash flow. You've eliminated the short cash flow and you are now some way towards paying your interest charges?

MR. HALLGRIMSON: That is correct.

MR. GREEN: So that your improvement has been over the period of four years of, from losing \$20 million a year and using the comparable figure, to coming close to breaking even?

MR. HALLGRIMSON: That's correct, yes.

MR. GREEN: So it would indicate that as Mr. Banman said that it has been demonstrated that you cannot turn the figures into black figures for a period of several years. Is that correct?

MR. HALLGRIMSON: Well based on what the experience was in this particular situation, if you're talking in terms of what was actually expended by the previous owners and what was expended after receivership, then perhaps even on our performance this year we are not even close - well we're getting closer to perhaps paying some of the interest, and hopefully I guess as we become more efficient if we remain at the same capacity, of using the same facilities, we might get a little closer each year but then perhaps we're going to get to a year where it's going to be not quite as good as it is in the present year, the prices might go down and the situation might be worse.

MR. GREEN: If as well in addition to what I have said, the loan capital was converted to share capital, so that you had a hundred million dollars worth of shares issued from treasury, then your position merely by bookkeeping would change dramatically for the better?

MR. HALLGRIMSON: Yes, of course.

MR. GREEN: And of course that is the way in which most private enterprises have their bookkeeping set up.

MR. HALLGRIMSON: That is correct.

MR. GREEN: That they have their shares issue - their basic capital is share capital and there is no interest paid on that share capital unless a profit is produced, in which case the corporation could or may not pay a dividend. Is that correct?

MR. HALLGRIMSON: That's right. I would also add to that that I think if there was anything . . .

MR. GREEN: Pardon me?

MR. HALLGRIMSON: I would just like to interject at that point, Mr. Green, and say this, that apparently if there was something that everybody was agreed upon with respect to The Pas Forestry Complex when it started out, was that it was a marginal operation and yet it was inflicted with a debt load of 86 percent of its cost, and maybe higher, you know, if certain suspicions are correct. So this puts an extremely heavy load on an enterprise which is apparently a marginal operation.

MR. GREEN: Well if the Churchill Forest Industries had gone out and issued \$100 million worth of shares and somehow got public, or other people to buy them, then there would be no interest payable on the share capital?

MR. HALLGRIMSON: Right.

MR. GREEN: And that is not unusual in the business world.

MR. HALLGRIMSON: And as a member of the Board of Directors of Manitoba Forestry Resources I would say that we would be very happy if you would take out the interest in equity.

MR. GREEN: So the fact is, Mr. Hallgrimson, this particular public corporation is at a great disadvantage as compared with many, many free enterprise organizations?--(Interjection)--Yes, where they have subscribed, where their money has come from loan capital rather than share capital.

MR. HALLGRIMSON: I would say yes. I would agree with that, and perhaps there are other reasons that make our situation maybe a little . . .

MR. GREEN: Well I would imagine that that would be a subject for great debate. But at least in the respect that I am talking about this corporation is, rather than being at advantage it is at a disadvantage as compared with many free enterprise corporations which are financed through share capital rather than through loan capital.

MR. HALLGRIMSON: Yes, I would agree with respect to those who have their financing arranged in that manner.

MR. GREEN: Now in spite of that if Committee had, or the Legislature, or the public, had looked at an operational statement of a \$20 million loss in 1970 and a \$20 million loss in 1971 and said give up, they would be making a premature decision as to what could happen vis-a-vis the corporation.

MR. HALLGRIMSON: Yes because the situation has improved.

MR. GREEN: And that is not unusual. Of course I'm not asking you to relate to other areas but it is the projections of many corporations when they're starting up that losses in the years of commencement are taken care of by long-range viability.

MR. HALLGRIMSON: Yes.

MR. GREEN: Well my only observation, if that is true of this it could be true of other corporations, but I'm not going to ask you to comment on other corporations.

Now I wonder if you'd give the members of the Committee the names and short sketches of the members of your existing board of directors.

MR. HALLGRIMSON: Yes. Mr. C. C. Hunt, who I believe resides in Swan River and is a member of the Board of the Manitoba Development Corporation and also the Manitoba Feed Grains Marketing Commission; W. D. Stothart, the engineering consulting firm of Stothart Engineering from Vancouver; Mr. Maurice Taillieu, St. Boniface. Mr. Taillieu has had a long involvement in the forestry industry, especially in woods operations with Boisse-Cascade and the hauling of wood. Mr. J. B. Hansen, a resident of St. James - he's a former executive with the Royal Bank of Canada recently retired; Mr. Mackling, A. H. Mackling, former Attorney-General; Leonard Remis, the Deputy Minister of Industry and Commerce; Mr. J. T. Cawley, the Deputy Minister of Mines and Resources; and Mr. S. J. Parsons, the Chairman and General Manager of the Manitoba Development Fund; and I'm on the board, and I am the chairman and president of the company.

MR. GREEN: Now just with regard to certain questions that Mr. Axworthy asked relative to feasibility of expansion, is it not conceivable, Mr. Hallgrimson, that despite what Mr. Axworthy fears, that is, possible unviability of the operation on its existing capital, that if you put in another 60 million, and I'm not suggesting that this is done, that if you put in another 60 million and that 60 million produced a much higher rate of return, let us say it produced a profitability of 10 million as against losses now experienced in the neighbourhood of two or three million, that even despite existing capital non-productivity - and I'm not assuming that I'm suggesting that that's what Mr. Axworthy was referring to - that expansion would make better of a difficult situation even if it didn't turn it completely around. Is that not a possibility?

MR. HALLGRIMSON: Oh definitely. I think, without getting too entwined in the reasons why we should be studying the expansion at the mill, I think that's one reason. As I stated before the unit cost is higher because of our low capacity and by increasing the capacity of the mill to 700 tons per day, we would lower our unit cost and thereby we would not only make a profit on the added 350 tons that we would be making but we would be making a greater profit on the 350 tons that we're making today. So whether it would make it completely viable or not of course that might be open to question but it would certainly make it more viable, or should theoretically if it makes any economic sense.

MR. GREEN: Now with regard to the fact that you have not taken depreciation, my understanding of depreciation is that it is supposed to represent a deterioration in the value of the assets and that is why the figure is put in, because over a period of years one expects that the assets would be depleted to be non-existent and would have to be replaced and therefore an allowance is made for depreciation. Is that correct?

MR. HALLGRIMSON: Yes, I would think - I'm not an expert on accounting but I would think that this is one of the reasons, although it's of course taken in many cases and the assets are rising in value.

MR. GREEN: Yes, that's the point that I would make, that in present years or in present

(MR. GREEN cont'd) accounting, and particularly income tax accounting, and I'm not criticizing this, that depreciation is used as a means of deferring payment of taxes even though there is no depreciation in the value of the asset.

MR. HALLGRIMSON: Well this in fact happens if the value of the asset is just the same or is increasing.

MR. GREEN: A person would take a depreciation on a \$100,000 apartment block at maximum rates in order to have the biggest write-off as against profits even if the block appreciates in value to \$110,000. That is a normal procedure.

MR. HALLGRIMSON: Yes.

MR. GREEN: Now eventually if the block is sold there is a recapture of that depreciation. So depreciation need not be taken into account in order to show the real situation, that it is often done in order to improve a tax position.

MR. HALLGRIMSON: No I don't think that you have to do it but under normal accounting principles I think it's accepted that you do take depreciation, but I think sometimes for income tax purposes if you have an option you don't take if it doesn't--it mightn't help your tax position.

MR. GREEN: I believe that you almost always have an option and that if you have a bad year you do not take depreciation because it doesn't help you . . .

MR. HALLGRIMSON: Right.

MR. GREEN: . . . but if you do take depreciation it reduces your tax indebtedness. So that your failure to take depreciation in view of the fact that the corporation is not in a tax position, and under present laws will never be in a tax position in that the Federal Government does not charge income taxes to a fully owned Crown corporation, that the failure to take depreciation is not necessarily an incorrect reflection of the position of the company.

MR. HALLGRIMSON: Well that's true. I mean it depends on the facts of the case. As a Crown corporation as you say it certainly is . . .

MR. GREEN: It's irrelevant for tax purposes.

MR. HALLGRIMSON: . . . irrelevant for tax purposes and it may be if it was a deteriorating asset that it would be incorrect. I imagine on an automobile, if we own an automobile or a truck or a skitter - these are items that in fact do depreciate. Now other items probably don't and if you were to replace the main facility at The Pas, the paper machine, undoubtedly it would cost more money today than it did four years ago so . . .

MR. GREEN: So the fact is if your asset had cost you 100 million and because of the rise in building costs and perhaps the operational value of the corporation by virtue of the contacts it's made vis-a-vis the marketing, etc., if it was worth 120 - and I'm just putting a hypothesis - then to depreciate to 80 would be a misleading picture rather than an accurate picture.

MR. HALLGRIMSON: Well it would just be a bookkeeping entry which mightn't really reflect the true state of facts.

MR. GREEN: That's all.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Thank you, Mr. Chairman. I'd like to get into this somewhat arcane ledger domain of financial arrangements we've just heard, and I'll try not to lead the witness as we've just seen. I'd like just to simply get some facts on the table.

MR. CHAIRMAN: Order please. Mr. Green on a point of order.

MR. GREEN: Mr. Chairman, on a point of order. You know Mr. Hallgrimson is not a person to be led around. If he disputes what I've said he would say so, and I do not think, Mr. Chairman, that it is proper for another member to reflect on the way in which I am asking questions. I had nothing to say about the questions that Mr. Axworthy asked, even though I may think some of them were rather idiotic questions. Now I don't like that type of thing and I wish that he would refrain from it and I will refrain from it.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I can only say to Mr. Green's outburst that he's too quick to take offense. I was simply expressing my admiration for his technique, not in anyway . . .

MR. GREEN: Thank you very much.

MR. AXWORTHY: . . . not commenting on it.

MR. GREEN: I'm very pleased at your solicitation to me.

MR. AXWORTHY: I think that it's something that we've seen before and I suspect we'll see it again.

MR. GREEN: Quite likely.

MR. CHAIRMAN: Let's proceed with the questions.

MR. AXWORTHY: I'd like to go back to some of the basic questions that we tried to raise before concerning the present financial position. I gather according to this statement you have now received - since 1971, let's not talk about the \$100 million that the shareholders of Manitoba lost or invested, according to Mr. Green's definition - let's go from 1971. You have now received over \$30 million from the Manitoba Development Corporation. Is that correct?

MR. HALLGRIMSON: Yes, that's correct. I thought I had the figure here but again I'm having trouble.

MR. AXWORTHY: All right.

MR. HALLGRIMSON: It's somewhere over 30 million.

MR. AXWORTHY: Somewhere over \$30 million, all right. I suspect that you are proposing in this second report the increase of three major items of capital expenditure, the boiler, the evaporator, the dry kilns. Is that correct?

MR. HALLGRIMSON: Yes.

MR. AXWORTHY: Now will that be paid for by the loans from MDC?

MR. HALLGRIMSON: No, I'm pleased to say, Mr. Axworthy, that we haven't had to draw any money from the MDC since last fall.

MR. AXWORTHY: Okay.

MR. HALLGRIMSON: And we have financed our capital expenditures out of the surplus that we've been generating.

MR. AXWORTHY: Out of the surplus. Fine. Okay.

MR. HALLGRIMSON: Of course we haven't been paying any interest.

MR. AXWORTHY: Yes. I would like to raise that point. You also said that you expect under your present capital facilities there would be a maximum profitability of around \$7 million.

MR. HALLGRIMSON: Well, I'm just pointing out the figure for the first six months is 3.4 million. I would expect that that figure could be doubled or even perhaps a little higher than that because prices are still rising, as far as paper is concerned, significantly.

MR. AXWORTHY: Fine. If you were including within that profit picture the interest on the capital that you now have outstanding from 1971 - I'm just speaking from that position - that would be an interest payment of close to, over three million, three and a half million dollars?

MR. HALLGRIMSON: No, I think it's something over - it was two million for nine months. It would be something just over \$2 million on the 30 million.

MR. AXWORTHY: I see. About two and some odd million dollars on the 30 million.

MR. HALLGRIMSON: That's right.

MR. AXWORTHY: Okay.

MR. HALLGRIMSON: Let's say two and a half million.

MR. AXWORTHY: Right. What other kinds . . .

MR. HALLGRIMSON: I'd say two and a half million dollars.

MR. AXWORTHY: What other kinds of costs would you lay against that net profit position for the forthcoming year, that expected 6.8 million dollars, what kind of other calls would be upon it aside from interest payments?

MR. HALLGRIMSON: Well nothing at present because we haven't established what our debt structure is to be.

MR. AXWORTHY: Oh I see. You haven't established your debt structure with MDC at all?

MR. HALLGRIMSON: No. Under the agreement of transferring the assets, this is something to be determined at a future date and we're awaiting the report of the Commission of Inquiry and hopefully, I would expect that this would be done at least before the end of our fiscal year.

MR. AXWORTHY: So presently you have no arrangements with MDC concerning repayment of capital forwarded to you since 1971?

MR. HALLGRIMSON: No.

MR. AXWORTHY: There is no arrangement for it?

MR. HALLGRIMSON: No, not legally, no.

MR. AXWORTHY: That I find a little surprising. I can understand not having an arrangement to the investment prior to 1971; I find it surprising that there wouldn't have been some

(MR. AXWORTHY cont'd) repayment schedule decided upon for the capital since forwarded, since 1971. Is there an explanation for that?

MR. HALLGRIMSON: No, other than that it was felt - I take it that when the agreement was entered into that we were not in a position to establish what the transfer price should be of the assets.

MR. AXWORTHY: I see. So all this surplus you're generating to pay for new equipment and so on, is really in lieu of having to return interest payments on your capital structure.

MR. HALLGRIMSON: Well, it would be money which would be exhausted if we were to pay the interest on say the amounts which were advanced prior to receivership, plus the interest on what was advanced after receivership. I'm sure that that wouldn't be enough.

MR. AXWORTHY: I see.

MR. HALLGRIMSON: We'd still be in a deficit position.

MR. AXWORTHY: Right.

MR. HALLGRIMSON: If we were to generate seven or eight million dollars this year, obviously we could pay two and a half million dollars in interest to the MDC and have something left over for capital projects.

MR. AXWORTHY: Yeah. And you pay no income tax on that at all?

MR. HALLGRIMSON: Oh no.

MR. AXWORTHY: And so when we get back to Mr. Green's position about the advantages of the private versus the public, the public also has an advantage versus the private in the sense it's not paying any taxes. Is that correct?

MR. HALLGRIMSON: The public . . .

MR. AXWORTHY: Well, but I'm still saying that on the existence of the Crown corporation - well, we're talking, you were talking about the eventual profitable position and I'm trying to get to the point of --(Interjection)-- then the public corporation has the advantage over the private in that respect.

MR. GREEN: It seems to be a good reason . . .

MR. AXWORTHY: Well, you can't have it both ways. Let me go back to the question on the - let's assume that you arrived at an arrangement with MDC, and I would hope that would occur very soon, that you had a profit position then of about \$5 million, that obviously would not be nearly enough at your present profitability, or your productive capacity to begin to meet the interest payments on the original \$100 million.

MR. HALLGRIMSON: That's right.

MR. AXWORTHY: So that in effect those one million shareholders, who had really not much choice in what shares they were going to purchase, can never expect any dividends or any returns in perpetuity unless there's a major expansion of CFI or of the Forest Complex. Is that right?

MR. HALLGRIMSON: That's true, but I can tell you, and I don't know what your portfolio is, but I have a few shares and none of them pay any dividends.

MR. AXWORTHY: That's true, but I also have some . . .

MR. HALLGRIMSON: . . . some do, but it certainly isn't a very high rate of interest.

MR. AXWORTHY: No, but as I say, we still have some choice to exercise as to when to get in and get out. Right? --(Interjection)-- Not much. --(Interjection)-- Now, what would be the estimated capital cost, or do you have an estimate, if you wanted to double your capacity up to that 700 tons of production? Do you have any idea what the additional borrowing . . . ?

MR. HALLGRIMSON: I think I answered that previously. Of course, this would be something that would be determined by the feasibility study. I think I said that I would naturally discuss this with my general manager and, you know, we've talked in terms of 50, 60 million dollars perhaps, but we . . .

MR. AXWORTHY: Pardon me. Fifty or sixty million dollars?

MR. HALLGRIMSON: Fifty or sixty million dollars, or at least--and it probably would go higher than that.

MR. AXWORTHY: Okay. I just wanted to get this straight. In order, then, to bring the Forest Complex up to a position where it may reach a stage that it could start paying some dividend, or at least breaking even, you would have to invest another 50 or 60 million dollars over and above the original hundred million, the 30 million, so we're talking now with an investment of \$200 million into the Forest Complex? To reach that . . .

MR. HALLGRIMSON: It would be approaching that, yes.

MR. AXWORTHY: So we're now talking about a debt position of \$200 million. Would you expect to get most of that capital from public funds through MDC ?

MR. HALLGRIMSON: I imagine that if we in fact do get a feasibility study and it recommends that we were to proceed with some expansion, the question then would arise as to how that should be financed. There is a good possibility--people now are expanding with the present market, it's quite possible that you could get contracts with users of the paper to put up money. In fact, I would say that we could stand an excellent chance of raising the money on our own.

MR. AXWORTHY: On your own. Without going into public financing.

MR. HALLGRIMSON: That's right. Yes.

MR. AXWORTHY: Okay. So that's the question I wanted to raise . . .

MR. HALLGRIMSON: Well, I want to make it clear, too, in the recitation of your facts, that I never suggested that if the mill were to remain as it is now, and even with our increasing profitability, that there was any hope of this corporation repaying in full the \$130 million. I mean, you only have to look at the present situation where we're at maximum production levels, we're in a very good market situation, and it would be impossible. So that whatever the value of those assets is to be established, at least a part of it would have to be allocated to share capital, because it would be completely unrealistic; it would be like the CNR or something - it would never be paid off.

MR. AXWORTHY: Hm-mm.

MR. HALLGRIMSON: Either that or you would have to hope for runaway inflation and pay off in Chinese dollars or something.

MR. AXWORTHY: Yes, that's right. Well, it's--that's okay.

MR. HALLGRIMSON: So I think any discussion on that basis is completely unrealistic and, as I say, I don't want to get into that, that's an argument about the historical aspects of this whole thing and what was incurred and whether it was proper or not.

MR. AXWORTHY: No, I agree with you, Mr. Hallgrimson, that in many cases that--but I don't think it's unrealistic to talk about it because I think it has a bearing on the future financial position of the Complex, and particularly if we are going to be expected to agree to or authorize, or in some way acquiesce in major capital expansion of that Complex, and I guess the question I'm trying to raise is whether it is simply better at this point to cut bait and to exist with what we have, or to take the risk of investing another 50, 60 million dollars in an attempt to recoup some of the already lost money. That's the kind of choice that will have to be made by these one million shareholders, hypothetical shareholders that we're talking about.

MR. HALLGRIMSON: Well, I don't really disagree with you, except that I don't think that it should be decided on the basis of what moneys actually have been incurred up to date, because I don't accept that necessarily as being what, you know, is a realistic value of the plant.

MR. AXWORTHY: Yes, I know, I . . .

MR. HALLGRIMSON: I'm not suggesting that there has to be a write-down, but to suggest that an enterprise of this type should be able to repay this by way of a debt structure is just completely unrealistic, and if you are suggesting that an expansion, or what in fact we have here today, is to be judged on that basis, I don't agree with you because I think that's completely unrealistic. You know, whether it's worth 130 or 75 million dollars, whatever it is, unless you get down quite low as far as value is concerned, I think that a part of that has to be dealt with on the basis of equity, at least a part of it, because to think of it all on the basis of repayment, like Mr. Green says, I don't know them, any public corporation or large enterprises that are completely financed to the hilt in that way.

MR. AXWORTHY: Yes, I realize that.

MR. HALLGRIMSON: I happened to be out in Vancouver the other day and saw the first report of Canadian Cellulose, that company that was taken over by the B.C. government, and I guess they bought shares in it, and their debt--I noticed their debt load was about four or five million dollars, and they are a much larger organization than we are. But to expect this enterprise to be able to pay 12 or 13 or 15 million dollars in interest charges each year, you can forget it. I mean, if that's the criteria, then you might as well just shut it down because it won't pay that.

MR. AXWORTHY: I'm not arguing the point, Mr. Hallgrimson, I am trying to clarify the point, though, because I think that there is confusion about what is the prospects of that

(MR. AXWORTHY cont'd) Complex and to what degree the public money that has already been invested may be returned or be used for other purposes, and I think that is the kind of decision that has to be made and, as I say, it may be the unpleasant one, that we simply have to assume that we're either going to go into an equity position and therefore have it on the books for time immemorial, or that we are going to have to go into major new investments to try to reduce the disparities between return and capital. And I think that is the kind of issue that I'm trying to raise, because I think it does come back, it has a wider question in the whole area of provincial government and investment policies, which there has been some question about and will continue to be, as to whether they are wise or done in the right way or whether they should be continued in a similar way. That's the kind of information I'm simply trying to elicit at this point. I would only conclude on this basis, of raising the question about how and in what way perhaps that the next financial or fiscal report of the Manitoba Forestry Resources and also the receivership, if it's possible to develop an accounting which would more nearly approximate the real value that we're dealing with. I think part of the confusion this morning has been we're dealing in a sense of almost there were two companies somehow operating when, in fact, the money has been going into the same operation, and it would certainly make our own position easier if we were able to make judgments or assessments based upon a clear estimate of values.

MR. HALLGRIMSON: Well, I would hope that that would be decided before the end of our fiscal year.

MR. AXWORTHY: I see. Would you be expecting then to redraft the report on that point, or wait till the next report?

MR. HALLGRIMSON: No, it would be something that would be reflected in our financial statements.

MR. AXWORTHY: I see. Okay. Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, I don't propose to get into a question of debate on whether or not . . .

MR. CHAIRMAN: Use the mike, please.

MR. MINAKER: . . . whether or not the accounting methods or the share capital versus loan capital is an advantage for private industry or private corporations versus Crown corporations, but there is one basic question I could ask Mr. Hallgrimson. Is it not true that the value of any assets in terms of appreciation when you're involved with holding shares in a company, is usually arrived at on whether or not the company is making a profit and in turn paying interest payments on these shares, or at least a profit share. Is this not true? In other words, if the company continues to operate in the red, eventually the value of the shares of a private company will go down and if they can get anything for them they're lucky at times. Isn't that true, that the value of shares would depend on whether or not the corporation is making a profit and actually making a dividend payment to the shareholders.

MR. HALLGRIMSON: Yes. The return would be by way of dividend.

MR. MINAKER: The other question I have is that while you're not including any depreciation at the present operating time in your accounting methods, are you putting aside somewhere an equipment reserve to handle the wear and tear on the paper machine and other parts of the process in the plant, so that if something major does fail that you will have reserves in hand to deal with this?

MR. HALLGRIMSON: No, we don't have any reserve . . .

MR. MINAKER: Normally, wouldn't the private company have such a reserve to handle . . . ?

MR. HALLGRIMSON: I would expect that that would be your depreciation.

MR. MINAKER: Right. It would be put into a fund of reserve, would it not, to handle these possible failures? Mr. Chairman, I wouldn't think it would be quite correct to say that depreciation is written of solely for accounting purposes and income tax purposes; that part of this normally is used as equipment reserves for future replacement.

MR. HALLGRIMSON: Yes. I thought, you know, in relation to Mr. Green's questions, that I certainly wanted to say that, as far as a deteriorating asset was concerned, of course, that's a different situation. If you weren't depreciating it you wouldn't be reflecting the true financial picture of that. But, on the other hand, if it's escalating in value, then of course it's . . .

MR. MINAKER: Mr. Chairman, I won't argue with Mr. Hallgrimson on that. I agree with him. It's the, you know, the buildings as such and the facilities are appreciating in value, and . . .

MR. HALLGRIMSON: It doesn't necessarily have as much importance.

MR. MINAKER: . . . share value of it too.

MR. HALLGRIMSON: Yes.

MR. MINAKER: One of the questions I have--well, the only situation, then, is under the River Sawmills in your report, I gather, that you show 391,000 or just the total to date of 1,325,000 in depreciation on logging equipment. Is that going into reserve?

MR. HALLGRIMSON: Well, it's a bookkeeping entry. I don't . . .

MR. MINAKER: Okay.

MR. HALLGRIMSON: We have for consistency, because of the fact that we haven't taken depreciation on our main assets, right from the beginning we, you know, publicly and otherwise, and for the sake of consistency, we've always added that back and reported it as cash profit before interest and depreciation. I think if you were to include part of the depreciation, this would become too confusing, and we, for the sake of consistency, have adopted this practice. Right or wrong, that's the situation and I think most people understand it. The reason, I think, that we've taken it in Woodlands is because we wanted to--we established a log cost to the various divisions and that includes the depreciation on equipment.

MR. MINAKER: Mr. Chairman, to Mr. Hallgrimson. Are you aware of what the normal start-up time for a plant is before it starts to get into the black and make a profit with, you know, other paper mills that have been recently built, from the day they start to try and get the process operating and start to try and produce, what the normal lead time is before it starts to show a profit? Is it four years, two years, or . . .?

MR. HALLGRIMSON: My information is that this varies. There have been occasions where somebody has started up a mill, and bang! It's just gone like that. That's an unusual thing. Normally, it takes some time. Some people have horrendous difficulties. I met a chap the other day and he's in a mill that was built about our time that we started out, and they started out well; now they're having all kinds of difficulties, and . . .

MR. MINAKER: But they're making a profit, are they?

MR. HALLGRIMSON: Well, I don't know. Also it depends upon what your capital cost is, Mr. Minaker, too, you know. You have to establish that.

MR. MINAKER: Mr. Chairman, my next question relates to the Woodlands Division, and I was wondering if Mr. Hallgrimson could advise us if he had heard of any relations problems with the haulers and the management of that division this winter in regard to down time and improper management and so forth. Were there any complaints brought to his attention in that regard?

MR. HALLGRIMSON: From haulers? You mean truckers?

MR. MINAKER: Yes.

MR. HALLGRIMSON: Improper management where?

MR. MINAKER: In regard to lack of maintenance of the roads, which were I believe the responsibility of the Division . . .

MR. HALLGRIMSON: Well, the only time I heard that was in relation to a question that you yourself raised in the House, and I've never had any word from any truckers up there that there was anything abnormal. Undoubtedly this year there have been severe weather conditions which have created some problems in there, but except for one trucking firm which happens to be here in Winnipeg, which had a number of difficulties which we attribute to a lack of experience in this and lasted there only for a number of weeks, we've had no complaints from the truckers.

MR. MINAKER: Mr. Chairman, was it not true that, I think it was 16 out of 45 trucks were pulled off work I think in the first month of this year, 16 out of 45 truckers or trucks pulled off the job?

MR. HALLGRIMSON: I'm sorry, I don't have the answer that I prepared, and my answer to you which I think was delivered in the House, with me here, but I know that it certainly wasn't the number of trucks that you inferred in your question.

MR. MINAKER: Mr. Chairman, the next question is - Mr. Hallgrimson - you didn't receive any complaints from the truckers about the down time of loaders that they were experiencing because of the fact there was only one loader, I think, at a certain site?

MR. HALLGRIMSON: No.

MR. MINAKER: I guess I've been talking to the wrong association because, Mr. Chairman, I know--I had a couple of meetings with the truckers and they voiced their opinions that they were concerned about these problems. I wonder, Mr. Hallgrimson, if you could look into that for us just to make sure?

MR. HALLGRIMSON: Is this an association up at The Pas that you're talking about, or local truckers at The Pas? Well, you asked whether they had been in touch with me. I have had no contact with them whatsoever.

MR. MINAKER: I wonder, Mr. Chairman, if, Mr. Hallgrimson, you could look into that just to make sure that everything is in order now.

MR. HALLGRIMSON: What would be the relevance, Mr. Minaker?

MR. MINAKER: Well, I think, Mr. Chairman, you know, we receive complaints from people who said they represented a number of truckers, and at that point they felt it was a very serious situation and gave us information to the effect of questions that we've just asked on this point.

MR. HALLGRIMSON: Well, I would just like to be assured that these complaints were from the association or so-called associations from The Pas, that it wasn't from a trucking firm in Winnipeg.

MR. MINAKER: It was from three trucking firms, really, and one of the truckers actually flew down from The Pas because he was concerned about this.

MR. HALLGRIMSON: I see. Well, I'd be only too pleased to find out what difficulties there were. As I say, I recall that you asked a question in the House concerning conditions in the Woodlands and inferring that their road conditions were terrible and that a great number of trucks were out of commission. I investigated that complaint and I found that there were a number of distortions in there and that it was, according to my information, not correct. I was told that there was this one company in Winnipeg that had come out -- they were inexperienced; they lasted for a very short time. They tried to climb hills in high gear and had inexperienced drivers and everything; but that the local truckers, that there was no complaint, but I'd be only too pleased to check into it and see if there's any foundation to that. But I wanted to be sure that--you said an association. Now it's three trucking firms, or is it . . . ?

MR. MINAKER: Well, Mr. Chairman, the one individual that came from The Pas said that they didn't really have an association, that he was speaking on behalf of a number of truckers. But my main concern, Mr. Chairman, is that we want to see this particular Complex operate efficiently and profitably, and, if there is a problem somewhere, maybe just a matter of discussion with the people in straightening out will make this a more efficient operation, and this is our main objective really, not to criticize the corporation as such but to make sure that things are running as . . .

MR. CHAIRMAN: Mr. Hallgrimson has stated that he has not received any complaints directly but that he will take a look into it, and I think the best way will be that when he finds any answers, if there are any actual problems, he could just send me the answer and I will relate it to you, Mr. McGill?

MR. MCGILL: Yes. Mr. Chairman to Mr. Hallgrimson. We got on to the Manitoba Forestry Resources' statement for the period October 1, 1973 to March 31, 1974. Now, the company was originally incorporated in March 1973.

MR. HALLGRIMSON: Yes.

MR. MCGILL: So you have a statement, an auditor's statement for the end of September 1973? I don't appear to have that.

MR. HALLGRIMSON: The company was completely inactive, Mr. McGill, until it took over the assets on October 1st.

MR. MCGILL: So there is no public, or there is no company Resources Limited statement for that period at all, eh?

MR. HALLGRIMSON: No, and there were no financial transactions, except the DREE grant which was received.

MR. MCGILL: Which you don't have though?

MR. HALLGRIMSON: No, it's in the Consolidated Fund. It was a completely dormant company until October 1st.

MR. MCGILL: I see. Mr. Hallgrimson, how is the corporation funded at the present time? I know that the Receiver of The Pas Forestry Complex gets money from MDC, but how are you operating the Manitoba Forestry Resources Limited up to this point? You don't have any assets, you don't have any--I don't see any notation here in any of the reports of any . . .

MR. HALLGRIMSON: Oh yes, we have assets, Mr. McGill. Pursuant to this agreement, which was also approved by a court order, all the assets that were up at The Pas and all the assets that I had in my possession as Receiver were turned over to the new corporation. What they inherited on October 1st was a going concern and, as I stated previously, we have fortunately been in a position since that date of not having to ask for any funds from the MDC or the Provincial Government, that we have generated enough cash to look after our operating needs and, as you see from the statements, we're generating money. The reason we don't have a big bank account is the fact that there's a capital program going on from time to time and capital payments are being made, and the money has been used for that. I could show you in the . . .

MR. MCGILL: Which statement is that, Mr. Hallgrimson?

MR. HALLGRIMSON: This is just an internal statement we have. We get reports each month, financial reports on the operations, and I just wanted to point out that up to December 31st we had allocated or spent \$943,000 on capital items. We've been financing our capital requirements out of the cash surplus that we've been generating.

MR. MCGILL: But I understood that the assets of CFI would not be transferred to you until the report of the commission had been received.

MR. HALLGRIMSON: No, Mr. McGill, the assets were transferred on October 1st. What remains to be done is to fix the consideration, the purchase price of those assets. That's all that remains.

MR. MCGILL: I see.

MR. HALLGRIMSON: Everything was turned over to the new corporation, you know, so that the valuation of the assets has not yet been done.

MR. MCGILL: That's right. That's right.

Have you had any discussions with the Cabinet with respect to those . . . ?

MR. HALLGRIMSON: No, I have not.

MR. MCGILL: . . . or any recommendations been made?

MR. HALLGRIMSON: Not as yet. No.

MR. MCGILL: Will that be done by negotiations between your company and the Cabinet?

MR. HALLGRIMSON: Yes, I would assume that we would. Of course, naturally we have a vital interest in what that figure is and when the time arrives we will undoubtedly be a part of those negotiations.

MR. MCGILL: I see. And have you any date in mind that that might be accomplished?

MR. HALLGRIMSON: I said previously that I would hope--I have no way of knowing, of course, because there are other--it's not determined by myself solely, but I would certainly hope that this would be determined before the end of our fiscal year so that our first financial statements at the end of the year, which would be September 30th, would reflect on our balance sheet what in fact the consideration for those assets is and what part of it should be borne by way of debt charges.

MR. MCGILL: Where is the head office of the Manitoba Forestry Resources Limited? Is it Winnipeg or The Pas or . . . ?

MR. HALLGRIMSON: The head office is here in Winnipeg. It's actually a small office. I have my office here in Winnipeg; it's on Notre Dame Avenue in the Montreal Trust Building.

MR. MCGILL: I see.

MR. HALLGRIMSON: We don't have much of a staff there. The actual operations are up at The Pas there, the General Manager is located and all the corporate personnel are located at The Pas.

MR. MCGILL: Then your directors' meetings are held, how often? Quarterly, or monthly?

MR. HALLGRIMSON: Every month.

MR. MCGILL: Every month. Now what are the directors' fees that are . . .

MR. HALLGRIMSON: We haven't set them as yet.

MR. MCGILL: But you have been having meetings?

MR. HALLGRIMSON: We have had meetings but we haven't set--I've been wanting to have them set but the Minister has informed me that Management Committee has directors' fees in Crown corporations under advisement and we're awaiting some word on that, so that. . .

MR. MCGILL: And your regular monthly meetings started when?

MR. HALLGRIMSON: We've always--during receivership we always had, I had an informal board, what we called an advisory board, and we always had monthly meetings and we continued that afterwards, after October 1st, and we hold our meetings every third Wednesday.

MR. MCGILL: Then no fees have been paid for any of those meetings up to this point, eh?

MR. HALLGRIMSON: No. No.

MR. MCGILL: I see. Well, Mr. Chairman, I think those are the principal questions, but I did think that there might be a report for the year end for September 30th, 1973, but there is nothing of any kind for the . . .

MR. HALLGRIMSON: Well, I indicated that the fiscal year is from September to October.

MR. MCGILL: September 30th, 1973, should have been the end of the first year or partial year of the corporation.

MR. HALLGRIMSON: Well, I guess this is true. As I say, it was really a dormant company except for receipt of this, and it wasn't actually received by the company itself, it was paid into the Consolidated Fund, Trust Division of the Consolidated Fund, pursuant to an agreement with the Government of Canada. So the company--you have a situation, the impetus to form the corporation at that time was to enter into this agreement with the federal DREE authorities, but it was essentially a dormant company and there would be no financial transactions to really reflect but in which I imagine when...By the way, the Provincial Auditor is our auditor for that company and when they prepare their first annual statements I imagine they would . . .

MR. MCGILL: It'll be 18 months, will it?

MR. HALLGRIMSON: . . . confirm the fact that there were no transactions, but it would be a nil statement.

MR. MCGILL: And as of October 1st, 1973, you have assets but no valuation on them?

MR. HALLGRIMSON: That's correct.

MR. MCGILL: And up to this point you haven't had any opportunity to discuss the valuation of those assets with the Cabinet?

MR. HALLGRIMSON: No, we haven't had any discussions as yet.

MR. MCGILL: I see. Thank you.

MR. CHAIRMAN: Mr. Banman,

MR. BANMAN: Just one question, Mr. Chairman, to Mr. Hallgrimson. The houses you mentioned that are part of the assets of the Forestry Complex, were any of those bought from Misawa Homes?

MR. HALLGRIMSON: None.

MR. BANMAN: Thank you.

MR. CHAIRMAN: Can we then proceed to have a motion that the Receiver's report and audited financial statements of The Pas Forestry Complex be received and reported?

MR. MCBRYDE: I so move.

MR. BOSTROM: I second it.

MOTION made and carried.

MR. CHAIRMAN: Mr. McGill,

MR. MCGILL: I'd just like to point out that, you know, technically the notice of the meetings said that we were considering the report of the Manitoba Forestry Resources Limited and what we're actually receiving here and adopting is the report of the CFI Receiver.

MR. CHAIRMAN: Receiver. Right. Okay. So committee rise and report.