



Legislative Assembly of Manitoba

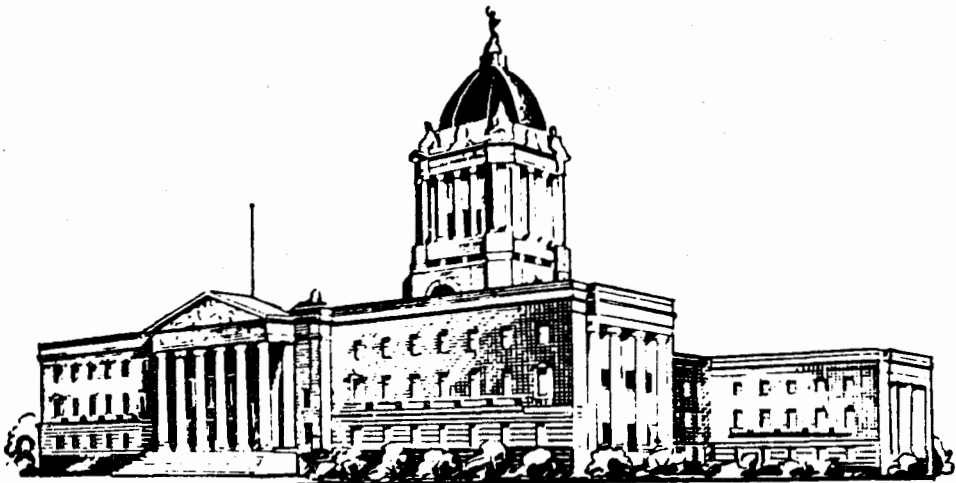
STANDING COMMITTEE

ON

ECONOMIC DEVELOPMENT

Chairman

**Mr. Don Orchard
Constituency of Pembina**



Thursday, June 15, 1978 10:00 a.m.

**Hearing Of The Standing Committee
On
Economic Development
Thursday, June 15, 1978**

Time: 10:00 a.m.

CHAIRMAN: Mr. Don Orchard (Pembina). Nomination and Election of Mr. Orchard as Chairman. (Agreed)

MR. CHAIRMAN: Gentlemen, the hour being 10:00 o'clock, we now have a quorum. I call the committee to order. The Honourable Minister for Industry and Commerce.

MR. BANMAN: I wonder, Mr. Chairman, before the committee starts, if I could table or have distributed for the members in the committee, a release dealing with the sale of Morden Fine Foods. Out of courtesy to the committee because it's Economic Development Committee sitting today, I would like to distribute that.

MR. CHAIRMAN: Very good, the Honourable Minister will distribute his copies then.
Would the Honourable Minister for Industry and Commerce care to introduce . . .

MR. BANMAN: Yes, Mr. Chairman, we have with us today the general manager of the Manitoba Development Corporation who will be presenting the Annual Report of the Development corporation for the year ending March 31st, 1977 and I would ask Mr. Parsons to take over from this point.

MR. PARSONS: Thank you very much, Mr. Minister. Do all the committee have copies of our reports? We have a package for them. All right, thank you very much. I will first go into the Manitoba Development Corporation Report and then we will deal with the various investment companies that are shown in this report.

The financial statements for the year ended March 31st, . . .

MR. CHAIRMAN: The Member for Inkster.

MR. GREEN: Mr. Chairman, in view of the fact that the Minister has distributed a statement as a prelude to the meeting, there is nothing in the statement, Mr. Chairman, which indicates whether the Manitoba Development Corporation or the government or any public institution is taking a mortgage back on the purchase price of \$1 million-some odd . . .

MR. PARSONS: May I answer that? No, it's a cash offer.

MR. GREEN: It's a cash offer, thank you.

MR. PARSONS: The financial statements for the year ended . . .

MR. CHAIRMAN: The Member for Brandon East.

MR. EVANS: Mr. Chairman, in view of the fact that the Minister has now distributed this statement indicating the sale of the company, I wonder if it would be appropriate to discuss this matter and ask some questions? We could, I suppose, when we get around to Morden Fine Foods but that may be a long time from now.

MR. CHAIRMAN: The Member for Inkster.

MR. GREEN: Mr. Chairman, may I also know whether there is any — on the statement as I see it, there are fixed assets at costs less accumulated depreciation of \$902,000.00. Would I then gather

that Morden Fine Foods have sold the assets worth a million dollars on their book value for \$1 million to Mr. Buhler?

MR. PARSONS: Yes. We have sold him the shares of the company for \$1 million.

MR. GREEN: Yes, but the fixed assets are worth \$1 million. Thank you.

MR. CHAIRMAN: The Member for Brandon East.

MR. EVANS: To Mr. Parsons, did you indicate that the company was sold for cash?

MR. PARSONS: Yes.

MR. GREEN: Yes, it was a cash offer.

MR. EVANS: It was a cash offer. Will the company continue to operate under this name, Morder Fine Foods Ltd., in that area or who is Mr. Buhler? Is he a local businessman — it says a Morder businessman but is he representing any large conglomerate?

MR. PARSONS: No, he is representing himself as far as we know.

MR. CHAIRMAN: Order please. Gentlemen, I am the servant of the committee. I will proceed or your advice. Should we proceed with the Annual Report of MDC and when we come to the portion involving Morden Fine Foods then go into the discussion of the statement released by the Minister this morning or is it the will of the committee to proceed with the discussion of the statement by the Minister and forego the report by the chairman?

MR. GREEN: Well, Mr. Chairman, in view of the fact that the Minister has made a statement with respect to this matter — and I'm not suggesting that we enter into a long-term debate — but the Minister interrupted the proceedings to distribute the statement and I would like to ask some questions on it. I don't know that anybody should have any objection to that nor did anybody have any objection to that until you intervened. I would like to ask some questions on this statement which — Mr. Chairman, the first order of business was the distribution of a statement and I submit that once a statement is distributed in that way, then the members are entitled to ask some questions on it. We'll get to the report in a moment.

MR. CHAIRMAN: The Member for River Heights.

MR. SPIVAK: Well, I think it has been a common practice for committees in the past to distribute information, particularly the Economic Development Committee, which is commented on by the members. It's not as if it will not be commented on by the members or questions asked. I see no reason why you cannot deal with the MDC statement and then, in dealing with the companies deal with this company as the first company. There is no . . .

MR. GREEN: Mr. Chairman, Mi Ken Azoy, Mi Ken Azoy and Mi Ken Azoy.

MR. SPIVAK: That's right.

MR. GREEN: That's right, and I would like to —(Interjection)— Yes, the translation: You can do it this way or you can do it that way. And I would like to do it this way and if there is an objector to it, I will make a motion to that effect and Mr. Spivak can vote exactly as he wants on it but I would like to ask some questions on this statement. Mr. Chairman, I would like to ask the Manitoba Development Corporation whether, with regard to this . . .

MR. CHAIRMAN: Proceed. The Member for Inkster may proceed.

MR. GREEN: Thank you, Mr. Chairman.

MR. CHAIRMAN: You're welcome.

MR. GREEN: I'd like to ask with regard to this sale, whether the Manitoba Development Corporation has a similar undertaking to the one that they got when they sold Sheller-Globe that if Sheller-Globe reduces sales that the business will go back to the Manitoba Development Corporation — reduce:

not sales, reduces the employment levels — that the Manitoba Development Corporation will have an option to take back the company just as they have with Sheller-Globe in Morris.

MR. PARSONS: No, we have no such undertaking. It's a straight sale of shares.

MR. GREEN: So then when the Minister says that the man has undertaken to continue the business, that is not a firm undertaking such as we have with Sheller-Globe in Morris which gives the Corporation a right to take back these assets which are worth a million dollars and have been given to him for a million dollars. The Manitoba Development Corporation has no similar contract with this person as they have with Sheller-Globe which gives the government an option to take it back if they reduce employment levels in Morris.

MR. PARSONS: No, there is no such option, it's a straight sale of shares.

MR. CHAIRMAN: The Member for Inkster.

MR. GREEN: Well, Mr. Chairman, I would say that given the history of this company which was a company in the private sector which left the government holding the bag, and now the government has taken the heavy load of expenses to keep it going, that it is irresponsible to turn it over to a private person without getting a similar undertaking which was done by the previous government when they sold Sheller-Globe Industries in Morris and on that sale, Mr. Chairman, we had an undertaking and have an undertaking that if Sheller-Globe reduces the level of employment activity, the government will have an option to take the company back. What's going to happen with this, Mr. Chairman, is that it could be run down, its assets could be distributed and we could be left holding the bag again the same way as we were by the private sector when they left us high and dry and left the people of Morden high and dry when Canadian Cannery left the province.

MR. CHAIRMAN: The Member for Brandon East.

MR. EVANS: Well, Mr. Chairman, are the new owners planning to continue to use it, operate it? It's stated this, or it's been stated but is there any undertaking that they'll carry it on for say a year and then at the end of that year is there any agreement that they would then sell the assets?

MR. CHAIRMAN: Mr. Parsons.

MR. PARSONS: They have indicated they will carry on the business.

MR. EVANS: There's no written undertaking as such that they would continue on indefinitely.

MR. PARSONS: No, they have indicated they will.

MR. CHAIRMAN: Gentlemen, might I ask for expediency in the recording and making the transcripts that I recognize the speakers so that we can have the tapes in order. Thank you. The Member for Brandon East.

MR. EVANS: Is there any application now before the MDC or any indication that an application will come from this new ownership to the MDC requesting funding for putting in place of a freezing operation or any other alternation or adjustment? —(Interjection)— application.

MR. PARSONS: No, there's no such matter being considered nor has it been indicated.

MR. EVANS: Mr. Chairman, I believe there's some reference in the statement to a major change such as a freezing operation. It seems that that might be a useful change in the assets or a change in the mode of operation which will require some capital funding. So it would seem to me then that there is a great possibility that the new owners would have to undertake some additional investment if they were to switch to a freezing operation and hopefully then become profitable.

MR. PARSONS: Well that is entirely up to the new owners and it would be a substantial investment, yes, to go into the freezing line.

MR. EVANS: Mr. Chairman, just as a matter of interest could the Chairman give us some sort

of an estimate of what the costs might be to the new owners of adding a freezing operation?

MR. PARSONS: No, we have estimated anywhere from \$1.5 million up to \$6 million, depending on what they're putting in.

MR. EVANS: Another question, Mr. Chairman, are the new owners seeking from the government — maybe this is a question better directed to the Minister — seeking from the government some guarantees that the government will buy product from it or some understanding that the government, through its purchasing agents, will buy product from the company with the new owners?

MR. PARSONS: I have no comment on that; I do not know. I think maybe the Minister . . .

MR. EVANS: I wonder if the Minister might like to comment on that.

MR. CHAIRMAN: The Minister.

MR. BANMAN: No, Mr. Chairman, there haven't been any undertakings or any special deals made with regard to the purchase of products by the Manitoba Government.

MR. EVANS: Mr. Chairman, to the Minister then, is the new owner seeking, are they in the process of seeking this assurance from the government?

MR. BANMAN: Not to my knowledge.

MR. EVANS: What about the level of operations? Have the new owners given any indication whether they will maintain the same level of employment? I see that in 1977 there were 44 seasonal employees. Is it 44 seasonal and 74 total, if I'm looking at that right? The fourth column. Number of employees per season regular/total, so I guess that's 44 regular and 74 seasonal. Maybe this question was asked before but I didn't hear the answer. What will be the levels of employment?

MR. PARSONS: He has indicated that he is going to carry on the canning operation. If he does so, then he will need those employees. He has indicated he is going to carry on at the same level.

MR. EVANS: The purchaser, a Mr. John Buhler, has he been in this type of business before? Could the chairman give the members of the committee a brief outline or a brief reference to this person's background as a matter of interest? Is he experienced in this field? Has he got some special expertise to bring to this type of operation that will bring the magic that's supposed to make it successful?

MR. PARSONS: I understand he's a successful businessman and that certainly will help but to the best of my knowledge, he has never been involved in a canning operation.

MR. EVANS: I think that's all I have for now, thanks.

MR. CHAIRMAN: Any further questions on the press release? The Member for Inkster.

MR. GREEN: I have one further question, Mr. Chairman. Will the government, with respect to its new owner, stop the discrimination against the purchase of Morden Fine Foods which is practiced in public institutions whereby other products have been specified? Will the government at least do that for the private sector which they didn't do for the public sector?

MR. CHAIRMAN: The Minister of Public Works. .

MR. ENNS: Mr. Chairman, that question, I suppose, is more appropriately directed to the Minister responsible for the Manitoba Purchasing Bureau purchasing supplies for all government institutions. That question which was raised during the short session in the fall prompted immediate examination by myself with the members of the Purchasing Bureau. I have personally asked to see the method and the actual order form, the specifications as written out for the products that Morden Fine Foods is capable of delivering and offering for sale to government institutions. The Honourable Member for Inkster is correct that there had been, I don't think with any deliberate attempt to make it more difficult — let me put it this way — for Morden Fine Foods, but it happens as a matter of convenience, or as a matter of simply following past practice, or as a matter of allowing administrators in institutions

to dictate preference which really isn't fair to say that the government of the day, or the previous administration was doing it. Those practices have been stopped as of some time in November of last year and the specifications now have no references to brand names. The specifications call for a particular type of product and description and orders are not related to brand names. And certainly, the concern expressed by the Member for Inkster has been made well known to the Purchasing Bureau, and I would assume that that practice is now being adopted.

MR. CHAIRMAN: The Member for Brandon East.

MR. EVANS: Thank you, Mr. Chairman. A question to the Chairman of the MDC. What is the amount of land that the Morden Fine Foods Limited has? It's valued here at \$25,000; there's been no change I note between 1976 and 1977 and yet other assets have been shown to increase very sharply, as a matter of fact; buildings and machinery are shown to have some substantial increases in value, yet not the land. I'm wondering how much land is there? Is there land over and above that which the buildings are on, is there some extra holdings of land?

MR. CHAIRMAN: Mr. Parsons.

MR. PARSONS: Yes, Sir. The land is all in the immediate area of the plant. There has been no additions to the land since we obtained it from Canadian Cannerys, but it is not farmland, it is all where the plant is situated.

MR. EVANS: Yes, Mr. Chairman. Specifically, how much land is there? Are there five, ten acres, or what amount besides, you know, that which contains the building per se.

MR. PARSONS: I'm not sure of the exact acreage.

MR. EVANS: Mr. Chairman, does Mr. Parsons not have any idea whether it's two, three, five acres?

MR. PARSONS: Oh no, it's about 10 acres, I believe.

MR. EVANS: Ten acres.

MR. PARSONS: Yes.

MR. EVANS: So is that land suitable for development within the town of Morden?

MR. PARSONS: I guess it could be.

MR. EVANS: So in other words with the owner purchasing this for about a million, which is the net value of the assets including land at only \$25,000, it would seem to me that there is a possibility that the owner could realize additional moneys from not only the sale of the building and the sale of the machinery and equipment, as has occurred some years back — or was going to occur a few years back — but also through the disposal of land for development purposes in the Town of Morden.

MR. PARSONS: It is possible. It is possible that he could. There are 15.4 acres.

MR. EVANS: 15.4 acres. So, in effect, for a million dollars, he has made a very good deal. For a million dollars he has got these assets that are shown as a net value of \$902,000 and yet including this amount of land. I'm not sure what the land values are like in Morden but I know it's a very fine town. It has been growing and there are possibilities. So that there is, it would seem to me, a good possibility that that land is worth more than \$25,000, considering that it's about 15 acres of land right in the Town of Morden.

MR. PARSONS: It is possible. We had the buildings, land and everything appraised and they were appraised for about \$365,000.00. That's total sale, and they show considerably higher than that on the books. But it's a matter of what you can sell those things for.

MR. EVANS: Who did the appraisal? It seems to me that we had one value for a vessel known as the Lord Selkirk. We were told it was one value and the new owners of the Lord Selkirk gave us another value, in terms of its scrap value that is. And I'm just wondering did you use the same

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appraisers for this equipment and buildings, or are you satisfied that you have appraisers that have given this a true value in terms of what it could be sold for? Not as scrap but as pieces of equipment and assets that can be disposed of, if not as a package but perhaps separately.

MR. PARSONS: Yes, we looked through this. We had a very qualified appraiser look at the whole operation and we assessed it in breakdown value as well. We would not have come out of the sale as well had we done that. Nor would there, of course, have been any ongoing jobs.

MR. EVANS: Mr. Chairman, I'd like to pose this question to Mr. Parsons. If you suggest that the estimates of the value of the buildings, the land and machinery are perhaps overstated on the statement — I think there was some suggestion about that — there was a generous estimate here and considering the fact that the company has lost money for several years, why would anyone want to pay \$1 million for these assets?

MR. PARSONS: He obviously believes he can do well with them. He can probably operate it better than we could.

MR. EVANS: As a matter of interest and I'm sure the general public in Manitoba would like to know, has the new owner revealed any plans as to how he is going to make it more successful? Is he going to link up with some other food company?

MR. PARSONS: No, he has not indicated that. He has given us an estimated marketing plan and showed us what he intends to do. It looks better than what we could do and I wish him well.

MR. EVANS: Thanks, Mr. Chairman. You are satisfied that he can operate the business successfully only time will tell.

MR. PARSONS: That's right.

MR. EVANS: Well, lottsa luck.

MR. CHAIRMAN: The Member for Inkster.

MR. CHAIRMAN: The Member for Inkster.

MR. GREEN: Mr. Chairman, the Chairman indicated that the purchaser purchased the shares of the company. Normally when a purchaser purchases shares, he accepts the liabilities. There's a liability to the Manitoba Development Corporation of long term debt of \$844,813.00, has that debt been wiped out?

MR. CHAIRMAN: Mr. Parsons.

MR. PARSONS: No, that debt hasn't, but we will be paying off the bank loan.

MR. GREEN: The bank loan is \$1,000,060 so . . .

MR. PARSONS: That is correct.

MR. GREEN: . . . that liability is wiped out . . .

MR. PARSONS: Right.

MR. GREEN: . . . by the Manitoba Development Corporation.

MR. PARSONS: Right.

MR. GREEN: The purchaser still owes the Manitoba Development Corporation — Morden Fine Foods continues to owe the Manitoba Development Corporation \$844,000 as at March 31, 1978 — it would be higher this year.

MR. PARSONS: Yes, it might be slightly higher.

MR. GREEN: So that money is owed by Morden Fine Foods to the Manitoba Development

I want to know whether the . . .

MR. PARSONS: I'll have to clarify that, can we come back to that?

MR. GREEN: Well, it's a rather significant point.

MR. PARSONS: Yes it is.

MR. GREEN: I that debt is wiped out, then what we have is a man picking up roughly, if our inventory figures are the same, \$1 million in inventory . . .

MR. PARSONS: Yes, that debt is wiped out.

MR. GREEN: Well then if the debt is wiped out, then he has not paid \$1 million for the shares, he has paid \$1 million — you have relinquished the \$1 million owing to the Manitoba Development Corporation, I suppose we could make a profit on that basis. If that debt was wiped out to the MDC — it seems to me that the MDC would do much better — if that debt was eliminated and the bank debt is paid off, what you have done is given a man \$1 million in inventory plus, at your figures, \$400,000 in assets for \$1 million and you have no undertaking in writing that you could get . . . If he liquidated his inventory and his land today he would be ahead \$400,000.00.

MR. PARSONS: We do not believe that.

MR. GREEN: Pardon me?

MR. PARSONS: We don't think he could.

MR. GREEN: Well, but you show your inventory at \$1 million.

MR. PARSONS: That's right, but if you went into a liquidated position you would not get \$1 million.

MR. GREEN: All right, but, Mr. Chairman, on the basis then of an ongoing operation, what the MDC has done, it has eliminated \$2 million in debt to a private person, given him \$1 million in inventory, plus \$400,000 in fixed assets and said, "Go ahead, be a rugged individualist." That's in effect, what has been done.

MR. PARSONS: I stated at the outset that the MDC was going to lose approximately \$2.3 million on this sale. He has still got to carry on the company and he's still going to have to put in considerably more funds in order to operate.

MR. GREEN: Well, he doesn't have to, he doesn't have to do that by any agreement that you have with him.

MR. PARSONS: No, he has stated his intention to do that.

MR. GREEN: He has stated his intentions of doing that but there is no agreement to do that. If he could liquidate this inventory at its book value and have its fixed assets, he could be ahead — if the inventory could be sold at its book value.

MR. PARSONS: Certainly he could, but as I stated before, we did try to get figures on selling off this and there's no way you could liquidate it and sell at that figure, you'd be lucky to get at the best 50 cents to the dollar. There has to be a fair amount of cash input put into that inventory before it's saleable —(Interjection)— It has to be labled . . .

MR. GREEN: Let's take Mr. Parsons' figure at 50 cents on the dollar. He will get \$500,000 for the inventory, he will get \$400,000 for the fixed assets, I don't know whether there is any current assets. There is production supplies of \$326,000.00. The fact is that if he liquidated today, he would not have paid one cent for this business.

MR. PARSONS: No, those are your figures.

MR. GREEN: Now, Mr. Parsons you've given . . .

MR. PARSONS: I said if you got 50 cents. I don't think you would because to put that million dollars . . . it would cost you another \$100,000 of your cash to put it into that and then I doubt that you would get 50 percent. —(Interjection)— As a matter of fact, some of the offers that we had showed quite considerably less than that.

MR. GREEN: Well I'm sure, Mr. Chairman, but the fact is that what we know is that the purchase for \$1 million wipes out \$2 million in debt which the MDC would have a much better financial statement if it could operate on the basis of having a capital investment of \$1 million in this business and having turned over to it \$1 million in inventory and \$400,000 in fixed assets, plus whatever prepaid expenses there are, that that is what has been sold for \$1 million and the debt to the MDC has been eliminated and there has been no agreement such as there was with Sheller-Globe, and I want to emphasize that. With Sheller-Globe when we sold the assets there was an option if this man decided to liquidate tomorrow for whatever reason, if he thought he could do better than you we would not have an option to retake this inventory, fixed assets and whatever moneys have gone into promoting the product and go back into that cannery which you do have with Sheller-Globe is that not correct? You have that with Sheller-Globe.

MR. PARSONS: Yes, we did have it.m\$

MR. GREEN: You did have it . . .

MR. PARSONS: It's expired, yes.

MR. GREEN: Well, but you did have it for a period of at least five years.

MR. PARSONS: No, I don't think it was that long.

MR. GREEN: Well, you had it in any event.

MR. PARSONS: Yes.

MR. GREEN: You don't have it with this company. Rugged individuals.

MR. CHAIRMAN: Proceed with the report, Mr. Parsons.

MR. PARSONS: I go back to the report on the MDC.

Financial statements for the year ended March 31, 1977 show a net income of \$4,853,000 for the year. Approximately \$3,500,000 of that income is attributable to the adjustment of an excess provision for losses in prior years.

During the year efforts were concentrated on making existing accounts profitable. New business was not actively sought and the corporation operated on the basis that it was available to provide financial assistance as a service to qualified projects, if requested.

The report of assistance is shown on the back of the statement on page 13. Of the 11 applications that were approved and accepted, 7 seven were from existing investment accounts.

The report of assistance includes an amount of \$5 million for Flyer Industries Limited. This assistance was requested to finance specific accounts receivable. The company did not need to utilize the total amount of credit authorized and has subsequently repaid all advances made under this authorization.

At March 31, 1977 net loans receivable from 68 companies amounted to \$7,869,000.00. Equity investments and related loans receivable from 11 equity investment accounts, amounted to a net of \$19,040,000.00.

The corporation's activities under Part II of The Development Corporation Act are fully reported in Note 7 to the Financial Statements.

The statements were I think very well set out. They're pretty well self-explanatory. We have full description in the notes to the statement.

There is one item in the balance sheet, that's Properties held for resale, at the lower of cost or estimated realizable value, that might have some requirement for an explanation.

There is actually six properties involved in that, four of them are under long term lease and therefore actually aren't for resale. They are leased to manufacture at the present time. There were two lots in that group, one piece of land in Brandon which consisted of five small lots that we had on the books at \$1,500.00. We have since sold that for \$7,500.00. There was a vacant building in St. Jean, Manitoba; we found a tenant who was willing to go out there and start up a business.

The land and buildings were on our books at \$40,500; we sold it to him for \$33,000.00. That building, incidentally, has been empty for three to four years, but we do have a tenant in there and although we show a loss it will develop a business there and be helpful to the community. The rest of the properties amounting to \$1.3 million are under lease and are really not for resale.

Also, since the date of this balance sheet, we have not made any loans since last November and we have also entered into a program of divesting ourselves of our equity investments. It was a commitment of the new government to do this. Our MDC Board met with the Minister in November; they agreed with this policy and we have been carrying it out. When we come back down to the companies, I'll review the ones that we had after the MDC statement and I will then inform you what has happened to them.

Did the Committee have any questions on the MDC statement of income and expense or on their balance sheet that they'd like to ask?

MR. CHAIRMAN: The Member for Inkster.

MR. GREEN: Mr. Chairman, with regard to the statement as of March 31, 1977, the operational statement shows a profit for the last fiscal year of \$4,853,000.00. May I ask the Chairman whether he could project from 1977 to 1978, of March 31, 1977, what the figures would have been for 1978 on the basis of continued operation of the MDC on the same relative standard of operations, as to what the balance sheet would have shown.

MR. PARSONS: Do you want me to give you an estimate of our income and expense, the results of the year's operation?

MR. GREEN: That's right.

MR. PARSONS: It would be somewhat less than this. Our interest has been declining as loans have been paid off and there has been a substantial number paid off in the last year, so our interest income would be less. Also, of course, some of our expenses are somewhat less as we have been decreasing our staff. We would probably come out at half that profit for the year ending.

MR. GREEN: So there would have been another profit year, but somewhat less than the previous one because a big portion of the profit in 1977 is the reversal of a previous reservation for losses.

MR. PARSONS: Yes, it would be less. I don't expect it would be a reduction such as there were in the provisions.

MR. GREEN: As at March 31, 1977, if we were dealing with the equity investments that have been held by the MDC, would I be correct in saying that Tantalum would have shown a profit?

MR. PARSONS: The Tantalum Mining Corporation will show a profit? Yes.

MR. GREEN: That Dormond Industries would have shown a profit?

MR. PARSONS: Yes, Dormond probably would have been reduced again - because their business has been dropping off, but it probably would have ended up showing a profit.

MR. GREEN: Phoenix Industries would have shown a profit?

MR. PARSONS: Cybershare would have lost money this year.

MR. GREEN: Cybershare would have lost money this year.

MR. PARSONS: Yes. As a matter of fact, it did. We know that because the year-end has passed and we did not have a good year with Cybershare.

MR. GREEN: Sheller-Globe would show a profit?

MR. PARSONS: As you know we only had a 10 percent interest in that and I don't know whether they would have shown a profit this year. It depends on what business they could have moved into that Morris plant.

MR. GREEN: Would it be correct to say that Sheller-Globe has been a profit making . . .

MR. PARSONS: Yes, it's been very marginal, and they have force-fed it, and there is one thing that they did in their statement of operations that really helped and made a profit; they never had any inter-company charge for capital, so they didn't charge them on any inventories that the parent company was carrying for them interest-free. Had they put those in, then it probably would have been very marginal, but they did show a profit.

MR. GREEN: Flyer Industries showed a profit on its last financial statement of over a million dollars.

MR. PARSONS: Yes, we will be tabling that statement.

MR. GREEN: So, is it correct — to the Chairman — that the difficult and problem companies other than Flyer, which I still regard as a problem, that the more difficult matters that the MDC had to deal with in the past four years were by and large behind us as at the March 31, 1977 statement?

MR. PARSONS: I think we could say that about some of them, but certainly Dawn Plastics Ltd. was a continuing problem, and we were showing quite substantial losses on that when we sold it. We expect Morden for this year to lose another \$400,000-\$450,000, so certainly we haven't solved that. Evergreen Peat that showed in our statement of 31st of March of course went bankrupt; it has gone. Venture Manitoba Tours of course has also gone; that was really a problem we couldn't solve so we turned that over to another government department, and unfortunately they weren't able to resolve it either, so that is . . .

MR. GREEN: But the transfer of Venture Tours in principle was agreed to before March 31 of 1977.

MR. PARSONS: That is correct.

MR. GREEN: It was just the paperwork that had to be done.

MR. PARSONS: That is right.

MR. GREEN: So that on the basis of the new operations, the ones that you were left with as at March 31, 1977, would it not be a fact that there would be some profit, some loss, but that you would have been able to carry on at a profit?

MR. PARSONS: As of March 31, 1977, I think if you added up all the profits and took off the losses of the other companies, I don't think you would end up in a positive figure.

MR. GREEN: Well, you indicated that the 1978 figure would have been a \$2 million profit.

MR. PARSONS: The 1978 figure would be a \$2 million profit for what?

MR. GREEN: For the total statement. That the 1978 statement for the MDC, based on the previous year's operations, and some of the difficulties that had been overcome, that the MDC statement would have shown a profit.

MR. PARSONS: Yes. I didn't say half of \$4,800,000; I said half of \$1,200,000.00. It would probably show about a \$600,000 to \$700,000 gain this year. I'm sorry, when I said half I was talking about the net income disregarding the provision because, as I said, I don't think there'll be a reversal of that provision in that magnitude this year.

MR. CHAIRMAN: The Member for Inkster.

MR. GREEN: Well, Mr. Parsons, what I'm trying to ascertain, and if I'm wrong of course I wish to be corrected, that the statements in the past three years which showed losses of \$16 million and \$13 million, that those things were behind us and that the MDC as of 1977 would have been able to operate on a much sounder basis.

MR. PARSONS: Yes, the companies are certainly in a lot sounder shape than they were three or

four years ago.

MR. GREEN: And, for instance, did the MDC calculate what they could do with Morden Fine Foods if they had written off all the debts and started with an investment of \$1 million? Would the projected Morden Fine Foods situation on the basis of an investment of \$1 million with the power to liquidate at a million, which is what the new purchaser has, would that have shown a different projection than what we are now seeing?

MR. PARSON: Yes, it would certainly make a difference but it still would not show a profit. You take your interest on your MDC loan, it would probably be \$90,000 and we're showing a \$450,000 loss so even taking that off it wasn't profitable.

MR. GREEN: But you've also taken the interest off the bank loan.

MR. PARSONS: That's right. That's another \$100,000 but it still would not be profitable. You know the more cost we take out, it's true, it reduces the loss, but we would not make a profit by taking out those two factors.

MR. GREEN: Mr. Chairman, on the basis of what you have sold you don't know, and you have no agreement from the purchaser, that the operation will continue.

MR. PARSONS: No. I think if he continues to lose money such as we have and he can't solve the problems that we could not solve, then he will not stay in business either, but hopefully he can do it better than we did because we couldn't do it.

MR. GREEN: The Board of Directors recommended to the MDC, am I not correct, that Morden could be viable if it got a considerable share of government purchasing which it was not getting.

MR. PARSONS: Yes. We certainly were looking for a new market. That is correct. If we had been able to double our sales then certainly we would have been close to a break even period.

MR. GREEN: And the Minister of Public Works has now indicated that the previous practices, which he said not purposely but perhaps accidentally discriminated against Morden Fine Foods, will be discontinued. —(Interjection)— Mr. Chairman, it doesn't guarantee it but certainly gives them a possibility of an increase in sales that they didn't have before.

MR. PARSONS: Yes, hopefully it might help the new owner.

MR. GREEN: Yes. So the new owner will have the following assistance: He will start off with a capital investment of a million dollars and everything that is there which on your books shows at closer to two million, a million dollars in fixed assets and a million dollars in inventory, and I'm being conservative on the low side, that he has fixed assets and inventories of over \$2 million for which he paid \$1 million, and he will also have the government now, because it is a private company, in my respectful submission, being much more solicitous of seeing to it that purchases are made from Morden Fine Foods.

MR. ENNS: I'll do everything I can to see that that company succeeds.

MR. GREEN: Mr. Chairman, the Minister of Public Works — put it on the record — will do everything that he can to see that that company succeeds because it is now in the private sector at give-away prices.

MR. ENNS: Mr. Chairman, on an interjection, I want to thank the Honourable Member for Inkster for putting that on the record.

MR. GREEN: I certainly will. He will tell people what beans to eat.

MR. ENNS: No I won't. That's what your government tried to do.

MR. GREEN: No, we didn't.

MR. ENNS: Do you want to see the memo?

MR. CHAIRMAN: Order please. Order please. The Member for Brandon East.

MR. EVANS: Thank you, Mr. Chairman. Since we're back at Morden Fine Foods I wonder if Mr. Parsons could tell us in his opinion what was the fundamental problem plaguing that company over the past several years? Was it a problem of adequate management or was it a problem essentially of marketing, not having sufficient market outlets?

MR. PARSONS: It was a problem of marketing and we've stated that many times before. We weren't able to get enough of our product into the market. It's a small independent cannery and the big chains tend to buy from their own people. They own their own canneries and it has been a very difficult thing to move the product in the market.

MR. EVANS: So therefore the management, Mr. Chairman, that the MDC had in place was satisfactory. You're satisfied that you had good people and they tried their best.

MR. PARSONS: I believe the management worked diligently and certainly the employees in Morden did their utmost.

MR. EVANS: Mr. Chairman, I'm glad to hear the Chairman say that the employees did their utmost, they performed as efficiently as they possibly could. But the reason for the difficulties that the company experienced is essentially that of insufficient sales and that is the key to its success — to be able to sell somehow, somewhere, to somebody, a sufficient amount to provide sufficient throughput to make it a profitable venture.

MR. PARSONS: You're right. It's a pretty basic business, but you have to get enough sales to cover your overheads and we weren't doing it.

MR. EVANS: Well, I don't know, this is past history. It seems to me that one of the great difficulties was the very heavy cost of getting the cans which had to be brought in from eastern Canada, and, you know, which added considerably to the cost — these empty tin cans I guess you'd call them. Whereas if it had gone to a freezing operation some time back and could sell frozen products there would be certainly a lesser cost involved. However, maybe this is behind us now, so I don't know if we really want to take any time in going into it. I think that my colleague, the Member for Inkster, has put his finger on it, that if we were to wipe the slate clean for this company right now, as it is being done for the new owners, it would be in a much stronger position to become and stay viable in the future, presuming of course that somehow there would be sufficient markets for its product.

Well, you know, I don't know who's the magician in this province, and the Chairman has just said that the staff did their utmost and I think they're a competent staff. I don't know whether this new owner — I don't know the gentleman — what miracles or what magic he's going work, I don't know what they're going to be. I am concerned that in a year or two they'll sell the assets and Morden will no longer have an industry.

MR. PARSONS: Are there any other questions regarding the MDC statement?

MR. CHAIRMAN: I have two speakers on the list. The Member for River Heights, Minister without Portfolio.

MR. SPIVAK: Can I ask Mr. Parsons who determined the marketing strategy over the last period of time — the Board of Morden Fine Foods, the MDC Board or the Department of Industry and Commerce, or was it a combined activity?

MR. PARSONS: No, the policy for marketing was set by the Board of Morden.

MR. SPIVAK: So the promotion, marketing procedures were the Board's — subject to the approval of the MDC Board at all?

MR. PARSONS: No, the Board of Morden worked independently. Certainly those reports went forward for the MDC, but once the MDC appoint a board, unless they are dissatisfied with the board operations they run the company, and set the policy.

Now, I might add that the management were instructed to seek help from Industry and Commerce as any other business.

MR. SPIVAK: The decision to go into canning of fruit juices, that was a Board decision based on their study, or was it a decision of the MDC Board, or was it a decision of the Department of Industry and Commerce to encourage it — not a decision, a recommendation of the Department of Industry and Commerce to encourage them to go into the canning of fruit juices?

MR. PARSONS: No, it was a decision made by the Board of Morden. We had an opportunity to buy a canning line at a very reasonable price, to go into the juices, and it was a decision made by them.

Now, there was also some studies that we received from Industry and Commerce indicating there was a market, and the first two years it was a pretty good market; we made money on it.

MR. SPIVAK: All right. So then, in effect, the Department of Industry and Commerce produced the studies with respect to the canning of fruit juices. The Board found that there was a line available — that is the Morden Board — and then they made the decision to purchase and then came to the MDC for final approval?

MR. PARSONS: They would only come to the MDC if they required money and I think at the time that we did that they had the money in place. It wasn't a large capital expenditure when they purchased that canning line.

MR. SPIVAK: Can I ask Mr. Parsons, was the Manitoba Development Corporation Board satisfied that the Morden Fine Foods Board, in projecting its marketing potential for a five-year period or a ten-year period justified the continued capital investment with the company? Was there a decision made? Were there projections that were shown? Was there a basis on which the decisions were made which would justify the additional investment further to the additional requirements for the financing of the losses?

MR. PARSONS: At one point they went along with this. I would say in the last two years both the Morden Board and the MDC Board has certainly not been very pleased with the results, and the Morden Board also know that the projections that were put together and the budgeting were not met.

MR. SPIVAK: Who was responsible for the promotional advertising of the Morden Fine Foods? The Morden Fine Foods Board, the MDC Board, the Department of Industry and Commerce?

MR. PARSONS: Basically the advertising was established by the management of Morden. The Morden Board approves the budget. There was no outside influence on the Morden Board; management were irected and they made the decisions on where the advertising went.

MR. SPIVAK: Was there any question on the part of the MDC Board as to the nature of the promotional campaign and the nature on which the Morden Fine Foods were marketing their product, before the substantial losses showed?

MR. PARSONS: No, I don't think the MDC Board got into the methods of advertising or promotion that Morden were using or were critical of that particular phase with the Morden Board.

MR. SPIVAK: Can I then ask, has the Manitoba Corporation Board prior to the sale analyzed the promotional campaign and its marketing techniques and offered any advice or offered any criticism of the operation of Morden Fine Foods?

MR. PARSONS: Certainly they have offered criticism. I would not say that they had directed any particular advice to the Morden Board; the number of dollars that were spent by Morden advertising was certainly not enough to get the market, but then again you have to look at the number of dollars they had available.

MR. SPIVAK: In the last year, is it not a fact that the Morden Fine Foods reduced their advertising from \$100,000 to \$10,000.00?

MR. PARSONS: It was almost that much.

MR. SPIVAK: So that in effect they reduced by 10 percent . . .

MR. PARSONS: A big part of that was in the Co-op advertising with the stores.

MR. SPIVAK: Oh, I see. Not in terms of the promotion of its product itself.

MR. PARSONS: No. You see, this Co-op advertising is very expensive in the food business.

MR. SPIVAK: Well, I really just have to put this question and then I'll leave it. Was there not a question that the marketing techniques of Morden Fine Foods, including the naming of Once Upon A Time, including the promotional campaigns attached to it, were really not reaching the market that was available, but in effect were if anything a deterrent to purchasing rather than an encouragement? Was that not discussed at all by the management?

MR. PARSONS: Yes, it was, and we weren't satisfied with the name, but it was a name that came out — and I'm sorry, I can't tell you who developed the name — it came out with the advertising agency and Industry and Commerce were also involved in it at that time when they came up with the original product labels. The management of Morden were also involved. The Morden Board weren't until the program was completed and presented to them as a package.

MR. SPIVAK: Well, was the Department of Industry and Commerce responsible for that packaging, for the naming and part of the promotion?

MR. PARSONS: I can't tell you whether it was their responsibility; they were certainly involved in it, but ultimately it's the responsibility of Morden management when they accepted it, but there was input by both an advertising agency and Industry and Commerce.

MR. SPIVAK: In retrospect now, would you not say that that promotional campaign and its marketing techniques were ill-conceived?

MR. PARSONS: They certainly weren't very effective, and we had a hard time with that name. It was . . .

MR. ENNS: It's hard to get another label on a can.

MR. PARSONS: Well, I'm not an expert on marketing. The name seemed to appeal to the people in marketing, but it certainly didn't to the consumer.

MR. CHAIRMAN: The Member for Wolseley.

MR. WILSON: Well, to follow up, there was one question out of your remarks I wanted to know about, I'll get back to Morden Fine Foods in a minute.

You mentioned you sold a building in St. Jean at a — did you say at a profit? I wonder if that was the St. Jean Sportswear building.

MR. PARSONS: I didn't say we sold at a profit, actually I said we sold it at a loss, and it was the St. Jean Sportswear building. We had it on our books at \$40,500 and we sold it for \$33,000.00. We had been trying to sell that for three or four years; we were trying to get a higher figure for it but it was impossible, but at least by selling it, the fellow is going to set up a factory in it and it will have some economic value to the community that way.

MR. WILSON: After you called in your loans at that operation, was there not a jean company continued to operate after you people bailed out? Is this the first time that another company has gone back in there or?

MR. PARSONS: Yes.

MR. WILSON: Since you closed it up? What was the total loss of that.?

MR. PARSONS: I don't know at this time. That was five years ago.

MR. WILSON: I see. But you mention that you sold this building in this report.

MR. PARSONS: Oh. We sold this building — we took the building and had it on the MDC books at \$40,500.00. We sold it for \$33,000.00.

MR. WILSON: I see.

MR. PARSONS: So we lost \$7,500.00.

MR. WILSON: The Member for River Heights mentioned a lot of things that my observations pertaining to Morden Fine Foods and I had to respond to the Member for Brandon East who seemed to indicate besides the fruit juices and things for this particular company, he talked about the frozen food idea. Was there ever any consideration for Morden to go into the frozen food business?

MR. PARSONS: There have been four studies done on frozen food in the last six years.

MR. WILSON: In light of the government's experience with the frozen food business for King Choy, do you think that it would be wise for them to go back into it again? Or were they considering it? What I'm trying to get at is, the Member for Brandon East seems to want to get back into the frozen food business and they had an experience previously in which they didn't quite make it. My observation basically is that I feel that these government particular businesses can't sell to the public. For the first time I've seen Morden beans on the shelf; I used to go and look for these things and they're very hard to find. Could you tell me, what were some of the problems that we couldn't get our products on the shelves? Were they there, or was there some problem in getting them on the shelves? Was it a consumer demand or is it a fact that the companies themselves wouldn't put them on the shelves?

MR. PARSONS: Any problem in retailing — we could get shelf space, but then we have to make sure that they move off those shelves. Now, if these stores did get them on the shelves and they didn't move, they're not going to reorder. It's the consumer that you have to get to move them and I'm glad to hear that you go and look for them. I do too and they're hard to find, because there isn't a big exposure such as there is with Green Giant or these large companies.

MR. WILSON: I find it incredible, and I have to lay the blame with . . . My observation is that salesmen working for a government operation just can't seem to have any concept of the marketplace, because here you have beans that sell for 31 cents, you have Libby's selling for 48 or 58 cents, they're priced for the price-conscious people and it's not a bad product, and yet you can't find them on the shelves. There doesn't seem to be any follow-up. But anyway, it's history, I know, but it just seemed to me that . . .

MR. PARSONS: Well, there is one thing I'd like to point out to you, that 70 percent of the Morden products are not sold under Morden labels.

MR. WILSON: Yes. Well, again, as I say, my closing comment to the Member for Brandon East is that I am convinced that the fish salesmen that sell our fish, they are government employees; the Morden salesmen that sold our products — and we've now sold the company, apparently — I think it's a good thing based on the fact they don't seem to be able to have any punch in the marketplace to move the products.

MR. CHAIRMAN: The Member for Inkster.

MR. GREEN: Mr. Chairman, the name King Choy has come up. I believe that was a loan account, was it not? .

MR. PARSONS: Yes.

MR. GREEN: So that was a private company that went into the frozen food business and couldn't sell its product.

MR. WILSON: It never wanted to get in anyway.

MR. GREEN: Mr. Chairman, I gather that there are, in addition to the equity accounts, numerous loan accounts that the Manitoba Development Corporation has such as Friendly Family Farms, such as Dent's Foods, which was a private company which went broke, such as Columbia Forest Products and numerous others which also did not succeed — some of these loan accounts. Is that not correct?

MR. PARSONS: Yes, certainly it's correct.

MR. GREEN: So that, to go back to the Member for River Heights, you would be aware of the Edsel automobile?

MR. SPIVAK: That ranks with Once Upon A Time.

A MEMBER: Once upon a time there was an empire.

MR. GREEN: Would you say, in retrospect, that the geniuses at Ford ill-conceived a program and a selling program with regard to the Edsel automobile? Would you say in retrospect that that whole program was ill-conceived?

MR. PARSONS: I think he was asking the Member for River Heights.

MR. GREEN: No, I'm asking the Chairman. You were asked in retrospect whether a certain promotional campaign was ill-conceived. Would you say that the entire production and promotional campaign with regard to the Edsel automobile was ill-conceived?

MR. PARSONS: Yes, and there's many things in retrospect, and we can all be very smart in retrospect as to those, but really, I think probably Ford spent more on Edsel surveying the market than we ever did on Once Upon A Time.

MR. SPIVAK: Well, very simply, is it not a fact that what Ford did with Edsel, is they cut their losses and were gone?

MR. GREEN: That's right.

MR. SPIVAK: Is that not the right course of action when there's a failure?

MR. GREEN: That's right.

MR. PARSONS: That's right. Your first loss is your . . .

A MEMBER: Best loss.

MR. GREEN: Mr. Chairman, is it not a fact that the Manitoba Development Corporation, between 1973 and 1978, cut numerous losses and moved on, with respect to many companies?

MR. PARSONS: Yes.

MR. GREEN: So we operated in exactly the same way as my learned friend is suggesting.

MR. PARSONS: Well, we're . . . —(Interjection)—

MR. GREEN: Now you're cutting your profits.

MR. CHAIRMAN: Order please. The Member for River Heights.

MR. SPIVAK: The Member for Inkster says that we are, in the case of Morden, cutting our profit. I wonder if the Chairman of the MDC could indicate how, with an expected loss of \$400,000 — \$500,000 for the next year and a loss of \$430,000 this year, we could be cutting our profit by the sale of Morden Fine Foods.

MR. PARSONS: I'm not sure how the word "profit" got involved in Morden Fine Foods. We've certainly had six out of seven years of losses varying from a small one to quite major amounts, and this next year we were projecting about the same type of loss.,

MR. GREEN: Mr. Chairman, the Member for River Heights has some difficulty with balance sheets. The fact is that I asked you earlier — that's right — I asked you earlier whether given the same balance sheet as now this private individual has, that is \$1 million invested and a potentially \$2 million in assets, would the Morden Fine Foods be in a much eounder position if you had that balance sheet than having your existing balance sheet, and you said yes.

MR. PARSONS: Yes, certainly it will reduce our interest. It still didn't come up with a profit.

MR. GREEN: No.

MR. CHAIRMAN: The Member for River Heights.

MR. SPIVAK: Mr. Chairman, the projected loss was \$500,000.00. The interest charges that would be deducted based on what I understand is approximately \$200,000, but there are management charges that were not charged for in this projection — if I'm correct — on the part of MDC . . .

A MEMBER: Sure they are.

MR. SPIVAK: . . . they are not sure.

MR. PARSONS: No, there's very little management charges . . .

MR. SPIVAK: And there's an advertising program of about \$10,000 as opposed to the previous years of \$100,000 on that. So that in effect what we're really talking about, even if the interest charges were reduced, is that the profit for next year that will be forecast on the assumption that you would base it in the same way that the members who — or the individual who purchased the company would be that the profit for next year would be a \$400,000 loss.

MR. PARSONS: I think that's a statement on a question.

MR. CHAIRMAN: The Member for Inkster.

MR. GREEN: Yes, we are debating the question, Mr. Chairman. The fact is that the Chairman of the Board has clearly indicated that what has been done is that \$2 million in loans have been written off or paid off — \$1 million to the bank, \$1 million to the MDC — \$2 million in assets have been transferred, as our book value, and this rugged individualist is not risking one cent and has no legal obligation to carry on the company.

MR. PARSONS: There are obligations. He is committed to contracts with farmers to purchase their crops this year. He has got to go through this canning season, because they are all under contract and he has undertaken to do that because he has taken over those contracts.

MR. GREEN: Mr. Chairman, if the company does not stay in business — which we have no obligation to say that it will stay in business — then I suggest to you that those contracts aren't worth anything to the farmer.

MR. PARSONS: No, but he will also lose his \$1 million.

MR. SPIVAK: He would also lose \$1 million.

MR. GREEN: No, we will sell the assets.

MR. SPIVAK: Who is going to buy it?

MR. PARSONS: Oh, all right, I'm not going to get . . .

MR. GREEN: 15 acres of land? With \$1 million inventory? It's saleable.

MR. PARSONS: He would still have the obligation to pay up his contracts. It's all legal.

MR. CHAIRMAN: Are there any further questions? The Member for Brandon East.

MR. EVANS: Mr. Chairman, I would like to address a question to Mr. Parsons. I note in his press statement on Page 2 there is a resume of profits and losses for I guess the history of the company, the seven-year period. The total loss for the period \$1,180,000.00.

At the same time, he also shows a table below that, Payments to Farmers and Employees, in the extreme right-hand column, for the same period of time, I would presume, roughly it comes

up to \$3,683,000.00.

In other words, although the MDC or the company itself suffered a loss of a little over \$1 million, nevertheless there was income generated to farmers in Manitoba and to workers in Manitoba, the employees' of \$3,683,000.00. So that, roughly speaking, there is a generation of additional income for the Province of Manitoba, forgetting about a private balance sheet and taking the provincial economy as a whole, there has been a generation of income in that period of time of roughly \$2-½ million.

In other words, if that plant wasn't there, there would be \$2-½ million less income generated in the provincial economy of Manitoba. Is that not a valid observation?

MR. PARSONS: Yes.

MR. EVANS: So that really in this period of time Morden Fine Foods, although its own balance sheet doesn't look that good, if you look at it from the provincial economy point of view it did generate \$2-½ million worth of income to this province of ours and we are therefore - better off for the fact that it has existed in this period of time. Is that a valid observation?

MR. PARSONS: Yes, it certainly is a statement of fact that we have made, that there were dollars and there were benefits to the community.

MR. EVANS: I'm sorry; I didn't hear the last statement.

MR. PARSONS: I said we have stated that there is a definite benefit to the community, both in the way of salaries to the employees and cash income to the farmers. And we have stated that was in the area of \$500,000 and \$600,000 per year. But we still lost the \$1 million that I stated earlier about.

MR. EVANS: There is no disagreement on that.

MR. PARSONS: I mean, the company loses money. The socio-economic benefits are not something that I can take into the Morden balance sheet.

MR. EVANS: Thank you, Mr. Chairman. From your point of view or from the point of view of the company itself, you know, obviously there have been many losses. But, as I say, from a governmental point of view, from a government that should be concerned with generating wealth within the province, I don't think one should regret that in this period of time, although the company per se lost \$1,180,000, nevertheless it generated income to farmers and to workers of \$3,683,000.00. So that we're ahead of the game roughly \$2-½ million.

Now, the members opposite can laugh any way they like. —(Interjection)— The fact is that people worked; farmers grew crops and canned vegetables were produced, or whatever else the company produces, and there was real wealth generated. In that period of time, I don't care which way you . . . You know, you can adjust these figures somewhat perhaps. I don't know the exact same period but I'm just going by what I see in front of me here that nevertheless we are ahead of the game, as a provincial economy, by about \$2-½ million. And that seems to be a valid observation.

MR. CHAIRMAN: The Minister of Industry and Commerce.

MR. BANMAN: Mr. Chairman, through you to Mr. Parsons, I wonder if you could tell us whether there were any management fees charged this last year to Morden Fine Foods by MDC.

MR. PARSONS: They would be very minimal, if there were any.

MR. BANMAN: The year before they charged about \$30,000 worth. What would be the change? Why would they have charged us?

MR. PARSONS: The gentleman that was managing the company was on the MDC payroll. He was actually an employee. So really what that charge was was for his salary through to the company, because he was working for them. That changed this last year. That was the . . .

MR. BANMAN: Why, in 1977, did the company cut back? You notice that there was only a section of land that was used for planting versus some increases in previous years. Was there a problem with overstock?

MR. PARSONS: Yes, we were overstocked in inventory so we cut back our crops, our contract for our crop.

MR. CHAIRMAN: The Member for Inkster.

MR. GREEN: Mr. Chairman, has the MDC Board made any investigation of the mortgage value of the assets that they have sold? Do you know whether Mr. — I can't remember his name; I'm sorry, it is no discredit to him — whether he has been able to get a mortgage on the assets that he is purchasing, with which to pay the MDC? Do you follow my question?

MR. PARSONS: Yes, you want to know if he is going to pledge these assets . . .

MR. GREEN: Whether he has been able to get a mortgage, and for how much, on the assets that have been turned over to him by the MDC.

MR. PARSONS: He is undoubtedly going to borrow against those assets.

MR. GREEN: Do you know how much he can get against those assets?

MR. PARSONS: No, I don't know the exact amount.

MR. GREEN: You then don't know whether the total debenture value value of these \$2 million in and real property mortgage assets don't amount to \$1 million, or maybe more than \$1 million.

MR. PARSONS: No, I have not asked him whether he has got that.

MR. GREEN: So then it is entirely possible that without putting up one cent but using the mortgage value of the real property and the debenture value of the inventory that this man is buying the company with his own money.

MR. PARSONS: No, he is not buying it entirely. He has already told us how he is doing that. He is putting guarantees of his own business, plus his own personal guarantees, in to borrow the money. He is borrowing the \$1 million. He is also putting his own name on the line, plus that of his own company.

MR. GREEN: I see. But you don't know what the mortgage value of the assets which you have transferred is. Therefore, you can't tell me that it is not \$1 million.

MR. PARSONS: That's right; I can't tell you.

MR. CHAIRMAN: The Member for Roblin.

MR. MCKENZIE: What was Mr. Buhler's previous occupation? Has he been in the food business before, or . . . ?

MR. PARSONS: No, he wasn't. He has Farm King.

MR. GREEN: Mr. Chairman, given the philosophy of the government, I have to sort of accept what they are doing. But there is one feature of it which I can't understand, even given the philosophy of the government. The previous government sold Sheller-Globe Industries. It got an undertaking in writing by contract that if the level of employment went down we would have an option to go back. Now, what would we have lost by merely getting the same kind of option to make sure that the assets are not distributed, that he just doesn't get back his \$1 million and that we don't have the industry? Because with Sheller-Globe it has apparently worked. We got an undertaking that if there was a reduced level of employment we would be able to give him his money back. Therefore he would lose nothing, and we would have the option of continuing. Wouldn't that have given us additional flexibility, which even the Conservatives couldn't object to?

MR. PARSONS: Well, in Sheller-Globe's case, we took a mortgage on their buildings as the payment so we could take that back. That is true. We did not want to finance . . .

MR. GREEN: Mr. Chairman, I am not asking about the mortgage on the buildings. In the sale we did take a mortgage on buildings, which apparently had some value and has worked out. There

has been no loss on the mortgage on the buildings with Sheller-Globe.

Why was it not a continued practice to say to this fellow, "Yes, we will turn these assets over to you. We will accept \$1 million, even if you think that's a good price," which I may disagree with you. "But it is being done on the understanding that you continue. And if at any stage it looks like you are not going to, we want the right to purchase back at the same figure so that we can continue to operate." Wouldn't that have given us some flexibility and really not penalized the purchaser?

MR. PARSONS: We possibly could have. I don't think it's that practical in the canning operation because you have the shelf life of your inventory, which is your biggest asset he is buying. If he came back in two years as a failure, his product wouldn't be any good and I wouldn't want to buy it back. You've got to remember that this is a different type of industry. It's strictly a different type of industry.

MR. GREEN: But there is some concern, even on the part of my honourable friends, that even though it is losing they want the operation to continue and they have said that one of the factors is that it will continue. And if you want a better example, despite the fact that ManFor is losing and you are a member of that Board, for the past several years the government, including the new government, has put millions of dollars into it to make up the loses.

Now, my question is: Given the fact that there is a need to have it continue in the community, would not the MDC Board have given us additional flexibility if they would have said to the person, "Yes, we are making this deal," which in my humble opinion is very very beneficial to the buyer and not to the seller, "but we do want to protect the continuance of the industry. So therefore if you are not going to continue, we want the right to buy it back at the same price." Would that have given us additional flexibility and protected the continuance of the industry? If you wanted it, you wouldn't have to buy it back. If it looked terrible, you wouldn't buy it back. It gives you an option, not a requirement.

MR. PARSONS: You're right; it would have given us an option. I don't know that we would want to get it back though. We were quite anxious to get out of it because we were losing so much money.

Now, that wasn't quite the case in Sheller-Globe because we just had a plant we had moved out of, but in this particular case we were losing at a rate of \$400,000 or \$500,000 a year.

MR. GREEN: Mr. Parsons, an option wouldn't require you to buy it back but would give you that right. Is that right?

MR. PARSONS: That is correct.

MR. GREEN: Then the government could say to you, "Yes, Mr. Parsons, you and your business colleagues on the Board," all of whom I have some respect for, "want to get rid of it but we want it to continue therefore we want to have the right to say at that stage that the inventory is not going to be sold, the plant is not going to be shut down, the lots are not going to be subdivided; we'll take it back at the same price that the man has paid. He won't lose anything on it and we will have an option of trying to continue. Wouldn't that have been an option which would not in any way have hurt the government or the MDC Board?"

MR. PARSONS: Well, we do not have that option. You may be right, I don't know; we have not considered it. We do not have that option.

MR. GREEN: Thank you.

MR. CHAIRMAN: The Member for Roblin.

MR. McKENZIE: Mr. Parsons, the dividend arrears on the shares of 184,000, is that still outstanding? The last page of the annual report says item 6, March 31st, the dividend arrears on these shares amounted to 184,000.

MR. PARSONS: Were you looking at Morden?

MR. McKENZIE: Yes, Morden.

MR. PARSONS: Oh. Pardon me.

MR. CHAIRMAN: Mr. Parsons. Item 6.

MR. PARSONS: Oh yes, they're still outstanding. They've never been declared.

MR. CHAIRMAN: The Member for Brandon East.

MR. EVANS: I'd like to base some questions on the annual report, Mr. Chairman. Mr. Parsons has said, if I heard him properly, that they haven't made any loans since this report was tabulated.

MR. PARSONS: No, I said there haven't been any new loans since November.

MR. EVANS: Since November.

MR. PARSONS: Yes. There were half a dozen loans from the 1st of April till the end of October.

MR. EVANS: I wonder if it would be possible for the Chairman of the MDC to give us an idea of what the portfolio is of the corporation. How many loans do you have on your books now? What is the total value of those loans? I mean, at the present time. I would gather it may not be — well, I don't know.

MR. PARSONS: It's down. There's about 60 to 65 outstanding and they are in about the 7,500,000 range.

MR. EVANS: Yes. 60 to 65 loans as opposed to equity and approximately \$7.5 million.

MR. PARSONS: Right. . Outstanding.

MR. EVANS: Yes. What is the rate of repayment of some of these loans? It seems to me a few years back you had several hundreds of loans on the books and obviously there has been a repayment or the loans have, for one reason or other, have ceased.

MR. PARSONS: Yes. There have been several that have gone out for refinancing and taken off our books. They've gone out to the private sector.

MR. EVANS: Yes, so . . .

MR. PARSONS: You recall Simplot was a large one that did that, it was \$14 million.

MR. EVANS: Yes.

MR. PARSONS: That's what showed. There were some quite large ones that had to go out for refinancing and that showed the biggest decrease in our portfolio.

MR. EVANS: At the rate of repayment based on the Chairman of the MDC's knowledge of his this portfolio, does he expect a significant reduction in this number in the next year let's say given the policy of the MDC . . .

MR. PARSONS: Well the majority are on a fairly long term. When we do get them cleaned up is when they want refinancing or some change in their portfolio, then we can move them out of our portfolio or whatever.

MR. EVANS: Well how many employees are there now with the MDC, how many staff do you have?

MR. PARSONS: Sixteen.

MR. EVANS: Sixteen staff to administer \$7 ½ million worth of loan portfolio and then of course you have some other interests, equity interests in addition to this, but given the policy of the government I gather policy is not only to provide equity for any company that may wish to develop or expand, but it's also the policy I gather not to make any loans either.

MR. PARSONS: We'll await the results of the Task Force study on that. I don't know what the future is, it has not been stated at this point.

MR. EVANS: Yes, well the origin of the MDF goes back, I guess, to the days of Mr. Roblin when he was Premier. It was an idea, an effort of the Conservative Government in the 50s, late 50s to assist in the development of the province's economy through a Manitoba Development Fund which became the Manitoba Development Corporation, really the same organization and now from certain statements we may be seeing the demise of the MDC per se and that the government will no longer have that organization as a developmental instrument or organization, if you will. But the Chairman is now telling us the future appears to be in the hands of studies done by the Task Force on government organization so, therefore, the jury's still out, it may or may not. Perhaps I should be directing this to the Minister rather than to the Chairman, but I think it's a fair question. Just what is the future of the MDC? Is it going to be phased out or is it going to continue in whatever way? That is a question because it has been and it can be an important organization for industrial development in the province.

MR. PARSON: I think you address that to the Minister, I'm not going to answer it.

MR. CHAIRMAN: The Minister of Industry and Commerce.

MR. BANMAN: Mr. Chairman, this was discussed at some length during the Estimates of the Manitoba Development Corporation. It was indicated at that time we were looking at the whole matter of the Manitoba Development Corporation that when a Cabinet decision had been made with regard to policy on that, it would be announced. So, right now what we have asked the MDC to do is put a moratorium on any new loan lending and that's where the matter stands right now.

MR. CHAIRMAN: The Member for Brandon East.

MR. EVANS: Well it would seem to me that the work load has reduced significantly and can continue to be reduced given the moratorium. Unless there is a change or reversal of the policy, are there any other companies that the MDC is planning to divest itself of? That is, it's equity ownership of the investments.

MR. PARSONS: At this particular point I think we've probably disposed of those that are relatively easy to dispose of. The only ones that we have left at the present time are William Clare which is in a development stage and can be considered a company that is almost non-disposable at this particular point in time. We have the Tantalum Mining Corporation in which we own 25 percent and it was the decision of the Government of Manitoba to retain our interest in that and the only other company then is Flyer Industries, and Flyer Industries is an ongoing company and I'm sure if we could find a good suitable owner that is willing to buy that, then we would consider it.

MR. EVANS: So that's three.

MR. PARSONS: There's only the three. I will run through this portfolio. I think they've all been reported, but on Page 8 on your report, and I do have some statements that I have given out in your package that we can go through individually but . . .

MR. CHAIRMAN: The Member for Inkster.

MR. GREEN: Mr. Chairman, with regard to the statements, it was an insistence on the committee, total committee, that as soon as the statements are given out today, that we would have the opportunity to go over them and meet again. I wonder if whether the same practice is intended to be followed because I am going to suggest that we do exactly what we did in the past. The members used to demand the statements earlier. They now have seen the light that it's best to give the statements out at the meeting, but coupled with that practice in the past there has been the right to review the statements and come back and discuss them and I trust that we will be given what is the same consideration as was demanded vehemently by some members of the Legislative Assembly and granted in every case, Mr. Chairman. We never had to discuss a statement that was laid down at ten o'clock in the middle of a meeting. So I would gather that on these statements we would have an opportunity to go over them.

MR. PARSON: If I might say that there is only . . .

MR. GREEN: Yes, I'm talking about the . . .

MR. PARSONS: You're talking about the subsidiary companies.

MR. GREEN: That's right. We're dealing now with the MDC Annual Report. That's right. Now, Mr. Chairman, I have a question on it before we get to . . . The fact of discontinuance of loans: It's my impression that the Government of the Province of Manitoba in its first four or five months in office has given a guarantee which, as the Chairman knows, we always had to show as a loan for which we had to have capital authority to CCIL in the neighbourhood of \$3 million. Now wouldn't that exceed all of the loans that were given by the MDC in the previous year?

MR. PARSONS: That guarantee was not put through the MDC.

MR. GREEN: I appreciate that, I understand that. I merely indicated that the amount that the government has given to commercial enterprises this year exceeds what they gave last year.

MR. PARSONS: No, because last year from March to the 31st of October, we had \$7 million in McCain's and another \$1 ¼ million to other companies, so there was \$8 ¼ million.

MR. GREEN: Was the amount of the McCain's loan \$7 million?

MR. PARSONS: Yes.

MR. GREEN: All right.

MR. PARSONS: And Paramount Bio-Chemicals with a half a million, Morden was half a million and . . .

MR. GREEN: All right. Then the amount in half a year is equal to what was given. . . I mean on a six month basis they have given \$3 million this year and the year is not over. —(Interjection)— Well, Mr. Chairman, I want to know, now there is a new concept. When moneys were loaned on guarantee or guarantees were given, was that not always considered an MDC loan? Did you not include that in your loan amounts when the MDC guaranteed funds?

MR. PARSONS: When MDC guaranteed the funds, but as I said, MDC did not guarantee any fund for . . .

MR. GREEN: Of course. I'm not suggesting you are, I'm suggesting that my learned friends are now suggesting that a guarantee to give money is something different than a loan. Was that the practice of the MDC, to regard its guarantees as different from loans?

MR. SPIVAK: Just on a point of order, Mr. Chairman.

MR. CHAIRMAN: The Member for River Heights on a point of order.

MR. SPIVAK: I think maybe the Member for Inkster misunderstood that. It's not that the announcement hasn't been made of the intention of the government, we're just not sure that the necessary loan guarantee has been signed or given at this point. The announcement of the intention has been made, no question of that but the point is, there is no sense of our discussing that until the announcement has been made . . .

MR. GREEN: If we accept the fact that the government means what it says when it makes an announcement that it is doing it and that this certainly will be a public help to CCIL whether they ever pick it up or not, same as it was to Versatile, that the commitment of the government to give approximately \$3 million to CCIL had it been done by the MDC would be part of their investment account. If the MDC had guaranteed CCIL, that would be included in your investment account.

MR. PARSONS: If it had gone through MDC, it certainly would have been included in our accounts in one form or another the guarantees are shown as well as loans.

MR. GREEN: Yes. Somehow honourable members are now saying that a guarantee is not loan. That's not what my bank tells me when I go into the bank they want to know what I have guaranteed

and they consider that as my liability. . .

MR. CHAIRMAN: The Member for Wolseley.

MR. WILSON: Mr. Parsons, you were glossing over some of the assets that the taxpayers and the government had and I wondered — one of the best kept secrets seems to be — do we not have a number of airplanes whole or in part that we would be selling in the future? It seems with brisk sales of aircraft in the Caribbean and South American countries, I wondered if you could tell me what the government is doing to seek out bids for these assets. Are they still there or have they been sold?

MR. PARSONS: Some of them are still there, some have been sold and we have a receiver appointed that is looking after the disposal.

MR. WILSON: Who would that receiver be?

MR. PARSONS: Mr. Jagger of Price Waterhouse.

MR. WILSON: Can you give me some indication what this gentleman might be doing to maximize the bidding on those assets?

MR. PARSONS: He would be advertising in the normal course.

MR. WILSON: Well, I think he's answered my question.

MR. CHAIRMAN: The Minister of Industry and Commerce.

MR. BANMAN: I wonder, Mr. Chairman, if we could go page by page through the report.

MR. CHAIRMAN: Pages 1 to 12—passed. Page 13the Member for Inkster.

MR. GREEN: Mr. Chairman, Page 13 includes the Auditor's Reports and I want to deal with this for just a minute. In previous reports to the government, the Auditor on several occasions indicated that the MDC was not carrying on on a business like basis with regard to its audit. Do you recall the Auditor making those statements some years ago?

MR. CHAIRMAN: Mr. Parsons.

MR. PARSONS: I'm not quite sure how you're phrasing that because . . .

MR. GREEN: Well you recall that the Auditor was critical of the report because it continued to accumulate the interests and showed no system of discharging it?

MR. PARSONS: Yes, I . . .

MR. GREEN: And as a result of that the equity in the corporation was increased from \$5 million to \$50 million?

MR. PARSONS: To \$60 million, yes.

MR. GREEN: To \$60 million. That certain of the debts including Manfor and Saunders Aircraft have been write off.

MR. PARSONS: They've been taken out of our statements, yes. - -

MR. GREEN: As a result of those changes, we have what is a nicer report. I want to know whether those changes have resulted in one penny in savings with regard to the public of the province of Manitoba' talking about those changes in the report.

MR. PARSONS: The changes in the. . . you talk about the global, the money is still being borrowed, we are no longer paying interest someone else is.

MR. GREEN: And the someone else is the people of the province of Manitoba through their capital

debt.

MR. PARSONS: There's interest being paid at some point.

MR. GREEN: Have the changes that have been recommended resulted in one penny in savings to the people of the province of Manitoba? I wasn't talking about the MDC, to the people in the province, that is the acquisition of \$55 million or raising the equity to \$60 million and writing off the bad accounts.

MR. PARSONS: No, I would assume that the money is still borrowed as it was before.

MR. GREEN: Thank you very much.

MR. CHAIRMAN: Page 13, the Member for Brandon East.

MR. EVANS: Yes, Mr. Chairman, I have a question on Kitchencraft of Canada Limited which is on Page 13. It states: "Loan — interest rate to be established 5 year term." Has the rate of interest yet been established, or what is the point of this interest rate to be established?

MR. CHAIRMAN: Mr. Parsons.

MR. PARSONS: It will be established at the time they take down their loan.

MR. EVANS: By the time they . . .

MR. PARSONS: When they take down the loan.

MR. EVANS: I see. Is this a common practice, interest rate to be established, or wouldn't that be settled at the beginning?

MR. PARSONS: Yes, we do it both ways. We will sometimes charge them 2 percent over the borrower rate at the time they take their loan down. This one was to be taken down about six months after it was given because it was sort of a tourniquet. We have done that with the McCain loan as well because it's going to take them a year and half to build the plant. It has to be completely built, so they have the option of taking the loan down at the interest rate then in effect. It can go both ways, it can sometimes go up or down.

MR. EVANS: So I gather, Mr. Chairman, that this company has not yet drawn down on its loan rights.

MR. PARSONS: No, I think it is drawn down now, it wasn't at the 31st of March 1977.

MR. CHAIRMAN: Pages 13 to 16—passed. The Minister of Industry and Commerce.

MR. BANMAN: Mr. Chairman, just before we go I wonder if it would be acceptable, we will deal with the individual companies and statements Tuesday morning, and I would also at that time like to have, just in case we do finish them, CEDF or . . .

MR. GREEN: It doesn't matter . . .

MR. BANMAN: . . . McKenzie Seeds J. ust for notice to the members, I'll try and get CEDF here if at all possible.

MR. EVANS: Mr. Chairman, maybe this is not a problem, but I understood from the House Leader that he was going to call Municipal Affairs Tuesday morning to deal with that Brandon Annexation Bill.

MR. CHAIRMAN: Committee rise.