

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Tuesday, 5 May, 1987

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. C. Santos (Burrows)

ATTENDANCE - 11 — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Cowan, Harper, Schroeder
Messrs. Baker, Connery, Derkach, Dolin,
Downey, Maloway, Enns

APPEARING: Mr. Raymond Kives, Chairman, A.E. McKenzie Seeds Co.

Mr. Keith Guelpa, President, A.E. McKenzie Seeds Co.

Mr. Ken Robinson, Vice-President of Finance, A.E. McKenzie Seeds Co.

MATTERS UNDER DISCUSSION:

Financial Statements and Auditors' Report of A.E. McKenzie Seeds Co. Ltd.

* * * *

MR. CHAIRMAN: Committee please come to order. We are going to consider first the report of A.E. McKenzie Seeds Co. Ltd. and then the Manitoba Development Corporation.
The Honourable Minister.

HON. V. SCHROEDER: Thank you, Mr. Chairman. First I'd like to ask the Chairman of McKenzie Seeds, Ray Kives, to make an opening statement, and then ask the President, Mr. Guelpa, to also make an opening statement.

MR. CHAIRMAN: Mr. Kives.

MR. R. KIVES: Mr. Chairman, I will make a few brief statements and then turn over our comments to the President, Mr. Keith Guelpa.

The Board of McKenzie is happy to once again announce a profit for the fiscal year ending October 31, 1986. This is the third consecutive year the company has made a profit after many long years of significant losses. Although this year's profit of \$303,000 is below the level of a year ago, we are confident that management and employees are doing everything possible to improve this profit level.

As Mr. Guelpa will further explain, the change in the company's return factor has significantly altered the company's profit. Finding a lasting solution to the return rate problem continues to be one of the company's highest priorities.

On the sales side, the company figures demonstrate modest growth as it is becoming increasingly difficult

to manage the declining consumer market for seeds. The company will continue to make sales growth another high attention area.

Overall, as last year, employee morale is good, productivity has increased, and our key mandate as a board remains to ensure that McKenzie does not become a burden to the government or to the taxpayers of Manitoba.

Thank you.

MR. CHAIRMAN: Mr. Guelpa.

MR. K. GUELPA: Mr. Chairman, as per previous years, I will not take the committee through all the financial statements contained within our annual report, but will focus on the consolidated Statement of Operations. You will find this exhibit three pages from the front of the booklet.

Sales for the fiscal year 1986 were recorded at \$14.2 million compared to \$13.6 million the year before. This represents an increase of approximately \$600,000.00. The majority of the increase came from the Consumer Products Division and, in particular, from outright sales products such as Uniflex and bulbs. The full impact of sales increases in the Consumer Products Division were lowered somewhat by the continued decline in seed sales. This trend has been in effect for a number of years and we see it continuing in the future. McKenzie's other divisions also experienced sales growth with the mail order business up approximately 7 percent.

The major sales problem facing the company is the continued decline in the consumer seed market, coupled with a significant increase in the company's return rate for seeds. In 1984, the company's return rate was 52 percent; that fell to 46 percent in '85 and bounced back to 51 percent in 1986. Remedying the company's return rate, as pointed out by the Chairman, remains one of the company's highest priorities.

The next area I would like to discuss is cost of goods. The company's cost of goods percentage rose from 52.2 percent of sales in 1985 to 55.9 percent in 1986. This represents an increase of approximately 3.7 percent. The increase can be traced almost entirely to the increase in our return rate. The net effect of the increase in cost of goods, what was mainly due to return rate, was to reduce gross profit by over \$200,000.00.

In the expense area, selling, marketing and distribution were up by approximately \$300,000, primarily due to investments in advertising programs which represented \$165,000 of this increase, and this was attributed to Uniflex, and another \$100,000 was due to related sales volume increase. Basically, all other budgets were held or decreased.

Moving to other income, the basic difference in 1986 versus 1985 is that the previous year we had a once-only tax credit adjustment of approximately \$75,000.00. When this effect is removed for 1986, other income is basically the same.

In the interest expense area, our long-term interest has declined slightly due to the pay-down of our long-

Tuesday, 5 May, 1987

term debt. McKenzie is paying the government approximately \$270,000 made up of principal and interest every year towards losing our long-term debt. This debt originated at \$1 million and now stands at approximately \$670,000.00. On the other hand, our short-term interest costs have increased, mainly due to increased borrowing activity as a result of lower sales.

The net effect of all the above accounts yielded a net income for the year of approximately \$304,000.00. This is the third consecutive year that the company has shown a positive profit.

Thank you, Mr. Chairman.

MR. CHAIRMAN: Questions from the committee?
The Member for Arthur.

MR. J. DOWNEY: Mr. Chairman, I think the Member for Brandon West beat me to the punch. I yield the floor to the Chairman -(Interjection)- Okay, Mr. Chairman. My first question dealing with the statement, and that is - and I'm pleased to see the tabling of the additional information which was committed in May of 1983, is dealing with the actual cost of carrying McKenzie Seeds by the taxpayers of Manitoba.

I find it somewhat difficult to sit here and listen to the introductory comments that things are doing quite well, thank you very much, at McKenzie Seeds when, in fact, they're not. When you look at the cost of borrowing - if I'm reading the attached sheet of paper that was circulated or the additional information which was circulated as committed in 1983 - that the borrowing costs for the money that the province has in McKenzie Seeds is \$1.2628 million, an accumulated amount over a four-year period of \$4.0399 million. If one were to just use the 1986 figures, one would have to take what is the perceived profit of \$300,000 away from that, and I would come up showing with \$1 million loss for the taxpayers of Manitoba.

Am I incorrect in my assumption as far as the taxpayers that are carrying McKenzie Seeds are concerned that there is in fact a \$1 million loss for the year and, if one were to put the accumulated interest owing to the province, it would in fact be more like a \$4 million loss or very close to it over the past four years, rather than leaving the perception, as the Minister continues to like to do, that McKenzie Seeds is doing very well? Is that a correct assumption?

MR. R. KIVES: I'd like to answer this question over several parts. First of all, when I took over chairmanship in March 1984, I spoke with Mr. Vic Schroeder and I explained to him that the company basically was a bankrupt company. We were taking over a dead position from the NDP Government, and from previous governments, in excess of \$12 million, or \$11 million to \$12 million. Any other company in the private sector at this time would have had to declare bankruptcy. Because it was a Crown corporation, the bank was extending credit but, if it was in the private sector, the bank would have called the loan.

Also we were having a lot of difficulty with suppliers. When they read our balance sheet, they saw this huge debt. Rather than the debt being in preferred shares, it was in actual debt. One of the conditions I stated

was that we take this debt and turn it into preferred shares. As of March 31, 1986 the province had already provided for a loss of \$6.9 million, so that the net equity was only \$5.3 million in the company.

By right, when I took over, the company should have written off all the old debts. By stating that there's \$12 million in loss and stating that the interest factor to carry this loss is \$1.2 million a year, it's real fictitious - it's really how to play with numbers. I was very angry when I read in the paper that the Conservative faction is taking a crack at this long debt that has been incurred over at least 10 years. Right now our company, basically, is not having fantastic years.

However, we are providing employment for over 200 people; we have not come to the government for any money over the last five years. We are in a position to keep people employed and we feel that right now, in the condition the company is, we will not have to need money from the government.

Therefore, I think that, by stating we are losing tons of money, it's a fictitious number because basically all this money was written off a long time ago. I hope that answers your question.

MR. J. DOWNEY: Mr. Chairman, it is interesting to note, and just for a bit of information, we'll get into the employment and the loss of employment to Brandon rather than a gaining of employment, as we've been led to believe. I think we'll be able to prove that as well, Mr. Chairman, but we have a program in Manitoba, and I'll deviate just a little from the particular Estimates that we're on and the report that we're on.

Just as an example, Mr. Chairman, that in fact the beef producers of this province owe the Beef Commission some \$30 million and, using the rationale that is being presented by McKenzie Seeds, then in fact that should be written off and the beef producers of this province shouldn't be tagged with that loss that's in the Stabilization Account. So I think we have to have a standard set of accounting principles.

The beef producers of the province are expected to pay back the millions of dollars that they owe to the taxpayers. I would think McKenzie Seeds, even though he did happen to arrive at what he considers an unfortunate time in McKenzie Seeds' history, that in fact is a difficulty which he has to face.

As far as the taxpayers are concerned, the money's put in; there's a carrying charge to that money; the financial statement of McKenzie Seeds should reflect it. As was indicated in 1983, we have the evidence now that the carrying charges for that money for the year 1986 was 1,262,800 which reflects the actual costs of doing business, carrying of the money at McKenzie Seeds and the perceived profit of \$300,000-and-some dollars has to be taken off, showing roughly a \$1 million loss.

Again, we do not want to get into the business, I believe, of this committee, of following the political posturing that the Minister continues to take us through, only for the perceived purposes of maintaining or increasing jobs at McKenzie Seeds. I in fact think it's going in reverse and, as the Minister has indicated recently or it has been indicated recently in a Cabinet document, it was nothing more than for political posturing and perception of the government as to the viability of it.

Mr. Chairman, I'll ask some other questions a little later on in a more detailed way. I just wanted to make those opening comments. My colleagues, I'm sure, have some questions dealing with this report.

HON. V. SCHROEDER: Mr. Chairman, I'm very pleased that this issue was raised again this morning. Quite frankly, I'm a little surprised that it was raised, but I'm very happy that it was as well, because it'll give us an opportunity to dispense of some fairly distorted history that's been presented by the "tag team" from the Winnipeg "Enquirer" and the "Blue Boys on Broadway," who appear to be in a conspiracy to attack McKenzie Seeds and employment in Brandon.

There was a document the Leader of the Opposition put forward on Wednesday last. He wasn't able to get it onto the record. It was a document that was either stolen or illegally or improperly obtained, a Cabinet document that he had no business having. He hasn't explained how it got into his hands, but when he wasn't able to get something happening on it -(Interjection)- I didn't say he stole it. Its presence . . .

MR. CHAIRMAN: Is there a point of order being raised?
The Member for Morris.

MR. C. MANNES: Mr. Chairman, the Minister has imputed that there was a stolen document. I would ask him to either indicate to the committee whether or not they were members of Her Majesty's Loyal Opposition who stole that document, or to indicate what he meant specifically by the word "stolen."

HON. V. SCHROEDER: Mr. Chairman, I didn't say that the Leader of the Opposition stole it. I said it was either stolen or improperly obtained through entry into some government office, which people don't have any business getting into or possibly by someone, possibly by a civil servant who is sworn to secrecy, sworn not to release these kinds of documents.

I think the explanation is something that is up to the people who had the document to give, but I'm just pointing out that he had a document that he didn't present in the House, wasn't able to get anywhere with it, so he handed it off to his partners over at Carlton Street . . .

MR. C. MANNES: Mr. Chairman, on a further point, the Minister's explanation is not satisfactory. I want him to withdraw any imputation that members of the Opposition have stolen a document that is to be presented to this committee, indeed that my Leader presented to the House last week.

MR. CHAIRMAN: The Member for Kildonan.

MR. M. DOLIN: Yes, on the point of order, it is one thing to say that the crime has been committed; it is another thing to accuse somebody of having committed the crime.

I think what has happened here, very simply, is the Minister correctly points out that a crime was committed. A document which belonged in a certain place came into another place somehow, where it should not have happened. Obviously that document was

moved without somebody's knowledge, without permission, etc.

That does not mean there was an imputation or an accusation made - it arrived in someone's hands. You know, for the honourable member to suggest that he is imputing that the criminal is the person who had the document is not what the Minister said. The Minister said a crime has been committed. The member's suggesting he withdraw the fact that there is imputation. There's no imputation made, and I would suggest there's no point of order.

MR. CHAIRMAN: The Member for Niakwa.

MR. A. KOVNATS: Mr. Chairman, on the same point of order, I think that the Minister is playing a bit of a dangerous game and being supported by some of his colleagues. I think that the inference was that the document was stolen. In fact, there was no inference at all. There was an actual accusation that the document was stolen. I don't know anything about it, I'm just listening to what is going on at this meeting. I would say that the Minister has made the claim that the document was stolen and inferred that the Leader of the Opposition had something to do with the theft of a document, and I would ask him also to withdraw his remarks.

MR. CHAIRMAN: On the same point, the Honourable Minister.

HON. V. SCHROEDER: Mr. Chairman, if there was any inference that I suggested the Leader of the Opposition stole the document, clearly that was not intended. But I say that it was obtained improperly, possibly criminally, but in one way or another, it was taken from the government improperly, and I'm not going to pursue it.

We pursued that a couple of years ago with the Member for Pembina, when he said he got a document, under the door, in the mail, on his table. He had different explanations every day for how he got the document. So I'm not going to raise the issue of how he got it, or which one was the true way he got it or anything like that. I'm simply stating a fact, that the Leader of the Opposition had a document, a document which was a secret government document which got into his hands and, if it got into his hands by way of somebody getting into a government office, that was improper. If it got into his hands by way of a civil servant giving it to him, then that was improper because of the Oath of Secrecy of the Civil Service. I don't know of any other way it could have gotten to him, but I don't suggest that he did anything illegal.

It could have gotten in under his door, in the mail, on his desk; who knows how? It may even have come from his partners on Carlton Street, I don't know that. I know his partners on Carlton Street had it a couple of days later, and I know they distorted it very much in their Friday edition. I want to deal with that a little bit, because that document has now been raised. I'm prepared to table the document after I finish going through it. I want to go through it for the benefit of members here, so that they understand a little bit about what we did and why we did it and why it is important

for Brandon, and why the Member for Brandon West should be appalled of the tactics of his colleagues here.

It's a submission to Cabinet by me, subject: "The Board of Directors of A.E. McKenzie Co. Ltd. has caused to be submitted to ERIC Ministers a proposal for restructuring McKenzie's long-term financial obligations. This proposal outlined three options in respect of \$6 million in debentures owed to the Manitoba Development Corporation at \$1.2 million accrued interest. These options were (1) complete write-off; (2) conversion Class B, common shares; (3) conversion to 6 percent non-cumulative preferred shares; or (4) a guarantee of bank credit.

"This submission will advocate the third option. In September 1982, the Manitoba Development Corporation received approval by Order-in-Council 1184 to convert its direct and contingent investments in A.E. McKenzie Co. Ltd. to a 20-year loan of \$7 million and a \$5 million, 6 percent, cumulative redeemable, convertible preferred share position. The financial restructuring was to have provided McKenzie's with increased flexibility for overall operational planning."

Here comes a very crucial paragraph, a very crucial paragraph: "The company has completed the first year of a program to reestablish profitability and self-sufficiency." I repeat: "The company has completed the first year of a program to re-establish profitability and self-sufficiency. While results to date have been promising, the company is still perceived to be financially troubled by creditors and by the financial community due to a large negative equity on its balance sheet. As a result, McKenzie has found doing business increasingly difficult and is now concerned about losing the operating line of credit from its bankers."

I want to go now to another document, which was the document presented to Cabinet by the board of directors in November of 1984 and, just to give you some background, Mr. Kives had taken over that company earlier in that year, was working on the turnaround. Mr. Guelpa was there. They had discussed, as you heard from the chairman, the fact that if they could be successful in beginning to turn this company around, something would have to be done about that debt which was way, way above the value of the company, and we agreed on that; that was understood.

But this is the document they presented to us in November, December of 1984 and was the basis on which I presented this other document to Cabinet, for January of 1985. "Background: The current nature of A.E. McKenzie debt and equity structure within the company's balance sheet is seriously jeopardizing the ability of the company to conduct business in a normal, commercial manner.

"Many commercial institutions are reluctant to carry on business with the company due to the size of McKenzie's negative retained earnings, \$8,038,907, and the large MDC long-term debt, over \$8 million of principal and accrued interest.

"Currently, the Bank of Montreal, who have been the company's bankers for approximately 40 years, have categorically stated that they have turned down our 1985 fiscal year request for a \$3 million operating loan. Their rationale for this is the company's high, negative retained earnings. They have stated that, in view of our financial situation, we should be bankrupt.

"In addition, they are concerned that, due to the large nature of the MDC debt, they do not have enough

security ahead of MDC. The bank has given us a number of options. First is to have the government guarantee the loan; another option would be to restructure the financial affairs of the company. Under either of the above, the bank would approve our request.

"The company is having further problems due to the types of financial reviews we receive from such institutions as Dun and Bradstreet. Again, due to our financial structure, the credit data for A.E. McKenzie is not encouraging when reviewed by suppliers. In the last two months, we have learned that both the export insurance corporations for Holland and France have refused to insure suppliers dealing with A.E. McKenzie. The refusal has been attributed to our balance sheet strength, large negative equity, and our previous history of late payment of bills. The latter problem has recently been remedied internally, but our financial balance sheet remains to be resolved.

"In summary, the board of directors of A.E. McKenzie Company Ltd. has examined the matter of the company's current balance sheet and it's concluded unanimously the following: (1) the company is currently seriously jeopardized with regard to carrying on normal commercial operations with its bankers and other institutions, due to the financial structure of the company's balance sheet; (2) the company must restructure, if it is to carry on in a normal business manner, or formal government guarantees will have to be issued when dealing with other commercial institutions.

"Recommendation: ERIC approve, in principle, a financial restructuring program for A.E. McKenzie Company Ltd. from the options provided below, with a final decision on the most appropriate one to be made early in January," early in January, which was done.

Now, Mr. Chairman, you heard the chairman of McKenzie Seeds suggesting earlier that what probably should have been done was the whole thing written off. We didn't do that. We instead wanted to show it as preferred shares, but this document that I just read from, the Enquirer had every bit of that information when they wrote that Friday piece of news which said simply that the reason they had restructured McKenzie Seeds was for some kind of an optical image that we had restructured, that someone this company had risen from the ashes and somehow that was it; that there had been no successful turnaround, which of course is a lie. The document itself which was quoted from stated that very clearly, the chairman has stated that, everyone outside of government excepting for the Tories, who want to destroy this company, and the Enquirer, who are in cahoots with them, co-conspirators with their document passing back and forth. They're the only ones saying this sort of nonsense.

Mr. Chairman, the bottom line is, there was a choice in 1985, which some day the Tories are going to have to face that they would have had to made as well as we did. Close it down, sell it, or operate it with a restructured balance sheet. Under any one of those scenarios, that money was gone; that money was absolutely gone. The Free Press, the Tories, notwithstanding nobody, nobody in this room or your buddies down the street, none of them would have been able to do it any differently, and they say it's not the issue.

The fact of the matter is, Mr. Chairman, we did not put one penny into that company in 1985; the fact of the matter is we did not put one penny into that company in 1986; the fact of the matter is we did not put one penny into that company in 1987. We said that there's no way that the workers at Brandon McKenzie Seeds should be responsible in 1986 for the balance sheet of 1980, and I just draw your attention to the balance sheet of 1980. I can't recall which Minister, whether it was the Member for Lakeside or the Member for Arthur responsible for the ridiculous circumstances in those days - the net loss for that year was \$1,588,252.00. That was a direct drain on the taxpayers. The year before, \$2,407,173 loss that they ran up. When they started up in 1978 with that company, there was a deficit there of somewhere around \$500,000.00.

By the time we took over - and the chairman of this company has some numbers, I understand, that shows that under the NDP years, there was an addition of some \$2.5 million, but that \$12 million, by and large, came as a result of the incompetence of the Tories . . .

MR. H. ENNS: We showed it as it was. We didn't horse around with trying to fudge the papers. That's what the issue is here.

HON. V. SCHROEDER: Mr. Chairman, in 1985, we had a bankrupt company because of the incompetence of the Lyon Government, and there again, you've got . . .

MR. CHAIRMAN: There's a point of order being raised. The Member for Lakeside on a point of order.

MR. H. ENNS: I just simply want to know the rules. If we want to deal with the competency of administration of some six years past, we're quite happy to debate that. We are here to debate the McKenzie Seeds Annual Report, we're happy to debate that. Just indicate to us what we're debating, Mr. Chairman. If the Minister wants to debate about the competency of the government six, seven years past, we'll have that debate.

MR. CHAIRMAN: We're here to consider the report of McKenzie Seeds Company Ltd. . . .

MR. H. ENNS: Then will you call the Minister to order, please?

MR. CHAIRMAN: . . . October 31, 1986 and 1985, together with the Auditor's Report. The Honourable Minister.

HON. V. SCHROEDER: Thank you, Mr. Chairman. We've had reference made by members in the Opposition to a refinancing and a restructuring that took place outside of the time period. That is what we are currently discussing. If you don't want to discuss that, I don't blame you. But let's compare it to the restructuring of other corporations and how that shows, because they say somehow there is honesty involved here.

We have accountants, we have the Provincial Auditor, all of them saying that we are doing this in accordance

with generally-accepted accounting procedures. Only the Tories and "The Enquirer" are saying otherwise. What happened as an example with Canadair? I've never criticized the restructuring of Canadair, it had to be done.

A few years ago, the Federal Government had a Crown corporation that was in bankruptcy in the private sector. It had a \$1.4 billion debt, which was spun off to another corporation, so this company came out with no debt. Canadair had no debt and then, of course, in a few years of more operation they were running up debts, not like McKenzie Seeds, which has been running up profits over the last three years.

I'm not critical of that. That doesn't show up anywhere and didn't show up on Canadair's books as an interest payment on behalf of the taxpayer. This was something that was gone. There was no way that you could say that this loss, which took place in 1978, had to have interest covered in 1987. It makes no sense. It makes absolutely no sense and the only way we could have a company here that would be viable for the future in Brandon with hundreds of people working was to do the restructuring.

Now we could, it is true, have sold the company for a couple of million dollars. We'd have still had that whole debt against us, except for that couple of million and we would now have probably less employment in Brandon, or we could have shut it down, sold the assets, stripped the assets. We've got a five-storey building in Brandon. The Member for Brandon West knows full well we would not get an awful lot of money for. Other than that, there's not a great deal in terms of assets there.

Mr. Chairman, when people discuss these things and suggest that it's done purely for optics when the facts reveal that it was done after a successful revival of that company, when the facts reveal that the people we were concerned about, in terms of perception, were people who were not seeing the recovery and they were the businesspeople dealing with McKenzie Seeds as the document itself made very clear.

The reference was to the perception of people dealing with McKenzie Seeds who were looking at a balance sheet which was in terrible shape, and they were saying that suppliers didn't want to deal with us anymore, the insurance companies didn't want to deal with us anymore, the bankers didn't want to deal with us anymore. We had to change that. The only way we could change that was a restructuring. What would you have done? What would "The Enquirer" have done? There was no other choice.

MR. CHAIRMAN: The Member for Brandon West.

MR. J. McCRAE: Mr. Chairman, the Minister has gone to great lengths and attempted to provide a somewhat heroic defence to something that is quite indefensible in the eyes of the people of Manitoba. The Minister talks about optics and the impression that needed to be left with suppliers and insurance companies and banks.

Let me read from page 2 of the document the Minister was referring to: "Conversion to either preferred or common shares can be the substitution on the Manitoba balance sheet of one asset for another of equal value,

each carrying with it the expectation of some future return. Therefore, neither need carry with it a potential effect on the provincial deficit. While both relieve McKenzie of mandatory annual interest expense and principle repayments, both serve to improve the appearance of McKenzie's balance sheet and will help promote the image of a healthy corporation rising from the ashes of financial distress.

"Preferred shares, with their dividend mechanism, allow for the specification of some minimum return and thus MDC will maintain some cash flow from this investment. Cabinet may wish to consider having an agreement concluded with the McKenzie Board of Directors to the effect that the 6 percent dividend will be declared annually, in order to promote the perception that the Crown is obtaining some return from McKenzie through MDC."

Nothing in this document refers to the perception - at least on this page of the suppliers, insurance companies or banks - as how the Crown is doing in all this.

The Minister, at about 10:30 a.m., for the first time this morning, mentioned workers, Mr. Chairman. Nowhere in this document do we have any reference to workers and preserving jobs for workers in my community of Brandon. What we have is the Minister struggling valiantly this morning to try to extricate himself from a position into which he's put himself, a position of covering up and hiding information from the people and trying to make something appear to be something that it's not.

Simple honesty should dictate that the Minister would come clean on this issue and admit that the changes that were made - and were made for a particular reason - and that reason is as it's declared in this document. This is why the Minister is so upset, that this document has become known, because we're talking about a perception. Indeed, Mr. Chairman, the Minister also referred to a document provided by the McKenzie Board to the government, and he read from that document fairly extensively but he stopped reading at page 3 at the top.

Now if you go on in that document, Mr. Chairman, you will see that several options are laid out for the Cabinet by the McKenzie Board. Option No. 1, and the details of it are that \$6 million of the \$7 million debenture outstanding to MDC be written off against the company's prior year deficit, leaving the balance in long-term debt due MDC of \$1 million. Further, that all of the outstanding interest due MDC October 31, 1984, namely \$1.154 million be written off against the company's prior year deficit. The net result of the above leaves a balance in the prior year deficit account of \$884,907.00.

Then we have two columns in this document, Mr. Chairman - Pros and Cons. One of the pros with respect to Option No. 1, is that it's the right decision for the future and another pro was that the government would face negative publicity only once, not annually. Among the cons, Mr. Chairman, on the other side of the sheet, No. 1, negative publicity for company and government. No. 3, the government would be forced to write the \$7 million off their books.

Mr. Chairman, the company has repeatedly told us - Mr. Kives, in the last two years during this review of the company's annual statement, has criticized

members of the Opposition for making comments about McKenzie Seeds and has stated clearly that the McKenzie Board is not a political board, although he's qualified that by making statements to the government that he felt the membership on the McKenzie Board should be of businesspeople with no particular government background or no particular party affiliation. We know that's not the make-up of the McKenzie Board, but that's what Mr. Kives has said. Yet we find in documents from the board comments like, government would face negative publicity only once, not annually. Later we come to the decision recommended by the Minister to the Cabinet, to which we referred earlier today.

Let's go, Mr. Chairman, to Option No. 2, that's the \$6 million of the \$7 million debenture outstanding to MDC be converted to Common B shares, leaving a balance in long-term debt due MDC of \$1 million. Further, that all of the outstanding interest due MDC October 31, 1984, namely \$1.154 million be converted to the same Common B shares above. Among the cons, Mr. Chairman, possible negative publicity for company and government, but less than Option 1.

Mr. Chairman, Option 3, I believe that's the option that the Minister recommended to the Cabinet - \$6 million of the \$7 million debenture outstanding to MDC be converted to 6 percent non-cumulative Preferred B shares, leaving a balance in long-term debt due MDC of \$1 million. Further, that all of the outstanding interest due MDC October 31, 1984, namely \$1.154 million be converted to the same Preferred B shares above. And among the pros, Mr. Chairman, on this option, provides the third best restructure for viability - not the best, not the second best and not the third best.

Can the Minister tell us why Option 3 was the one chosen as opposed to Option 1, which appears to be the option preferred by the McKenzie Board?

HON. V. SCHROEDER: I note that, before I tabled the Cabinet document, the member for Brandon West was reading from it. I must say he is fairly adept at those sorts of things. I congratulate him for being able to do that.

A MEMBER: Are we going to table all these documents? They have been read in the committee.

MR. CHAIRMAN: The Honourable Government House Leader.

HON. J. COWAN: Will the Member for Brandon West table his document as well?

MR. J. DOWNEY: He doesn't have to.

HON. J. COWAN: I believe the Minister is prepared to table the document. I'll also ask the Member for Brandon West, having read extensively from that document, if he would table his document as well.

MR. CHAIRMAN: We have a rule in our procedure, 29.1. Let me read the rule. "When in a debate a member quotes from a private letter, any other member may require the member who quoted from the letter to table the letter from which he quoted but this rule does not

Tuesday, 5 May, 1987

alter any rule or practice of the House relating to the tabling of documents other than private letters.”

MR. C. MANNES: What's your ruling, Mr. Chairman? The reference is specifically to letters.

MR. CHAIRMAN: I requested all documents read extensively be tabled . . .

MR. C. MANNES: Mr. Chairman, on a point of order.

MR. CHAIRMAN: . . . because it has been requested by one of the members of the committee.

MR. C. MANNES: I don't think there are any rules that force any member to indeed table a document unless it's a letter, Mr. Chairman. The Minister was the one who made a commitment to this committee to table the documents. We respectfully request that he do so.

HON. V. SCHROEDER: I'll table mine, you table yours.

HON. J. COWAN: Mr. Chairperson, the Member for Morris says, if there is no rule that explicitly requires the tabling of the documents and, while he is correct in that respect, he conveniently ignores the fact that there is a practice and a precedent in our House which has called upon members to table documents that are not letters which are read extensively into the record.

However, if the Member for Brandon West does not want to table the document, it is not an issue that we would force him to pursue. However, we would like to know from the Member for Brandon West why it is he doesn't want to table that document.

MR. C. MANNES: Is that an order, Mr. Chairman?

MR. J. McCRAE: Mr. Chairman, the document is the Minister's document and he can table it.

HON. V. SCHROEDER: A couple of points I would like to make. First of all . . .

SOME HONOURABLE MEMBERS: Oh, oh!

MR. CHAIRMAN: The Honourable Minister has the floor.

HON. V. SCHROEDER: . . . the Member for Brandon West, in his usual brilliant way, made reference to the fact that I stopped reading at the top of page 3, to suggest that I wasn't pointing out what the first option of the board of directors had been.

I very clearly said, and Hansard will show that I said that the board of directors first request was that we write the whole thing off, no preferred shares, simple write-off. That's what I said, so don't you impute to me the suggestion that I wasn't prepared to say in public what it was that the board of directors recommended to me. That may be the way you play the game; I don't.

MR. CHAIRMAN: Order please.

All members speaking in a committee should address the Chair. Otherwise, we will get into personal confrontation here.

HON. V. SCHROEDER: Mr. Chairman, what the Member for Brandon West also didn't read on Option 3 is that it seems to me that it was a not bad option. It is true that it would be simpler for the company to simply write off the debt, that's true. Would members opposite have said, now that the debt is written off, we won't refer to it again? That's nonsense. That's patent nonsense.

In fact there is nothing wrong with showing the investor's investment. I've discussed this with a number of accountants, which I would really recommend that the people on the opposite side also do. Discuss it with accountants and see whether what we did is in accord with reasonable accounting principles or is not. Ask your accountants whether the statement your Leader made the other day in the House - and this really goes to the heart of it - that we had a \$900,000 loss on McKenzie Seeds because we operated it in 1986, Mr. Chairman.

I want to read from Hansard last Wednesday, where the Leader of the Opposition made reference to McKenzie Seeds' 1986 operation, and he says, “. . . will the Minister now acknowledge that, given the profit of \$303,000, in fact it has cost the province over \$900,000 to have McKenzie Seeds operating this past year?” That's the issue. Is that a true statement or is that an incorrect statement?

I challenge members of the Opposition to get any credible accountant to say that this is an accurate statement, because it is not. You know that it is not. You know that if we had not been operating McKenzie Seeds in 1986, that loss would have been there exactly in the same way, plus there would have been a further loss of \$303,000, plus there would have been the loss of employment in Brandon. And you know that's a fact and you know that there is no reputable accountant in this province who would say otherwise to you. Had we sold, we would still have that loss. Had we shut down, we would still have that loss, and it is not true that I should acknowledge that, given the profit of \$303,000, in fact it has cost the province over \$900,000 to have McKenzie Seeds operating this past year. That is an incorrect statement on which the premise of the Conservative Party and their co-conspirators over on Carlton Street are resting their entire case. That premise is a false premise and, if there is anyone here who is prepared to challenge that statement, please do so.

MR. J. McCRAE: Mr. Chairman, the government is subsidizing McKenzie Seeds on an annual basis and continues to do so through long-term borrowing costs, and it has provided McKenzie with an interest-free investment of some \$12 million, so this does amount to an annual subsidy when we consider the borrowing costs.

Since that injection of funds, Mr. Chairman, the total Manitoba payroll numbers have dropped, I understand, and we can get details about that later. I'm not sure, but I think that's true, certainly at the peak period. And that leaves a peak employment level of somewhere around 250 employees. Am I correct?

MR. R. KIVES: Mr. Chairman, basically in 1984 when I took over, the employment was 200 people. Due to

the decline in the retail sector of seeds across Canada, we had to consolidate the number of people employed, and this fell in 1985 to 193 people and in 1986 to 184 people.

We definitely feel that our emphasis is now going to go into the mail order sector and we will, in the next few years, start employing more people in this area. However, like I stated to the Honourable Member for Brandon West, like I say, we are running it like a business, we are consolidating, we are not an employment agency. We are cutting the number of people where we have to and we will be employing the number of people in the proper areas. However, right now we are still employing, over a 12-month period, in the area of approximately 200 people, give or take 10 percent.

MR. J. McCRAE: Mr. Chairman, how much of McKenzie's product is imported from outside of Manitoba?

MR. R. KIVES: Basically a great percentage of the product is imported, however, the real cost is in the packaging which is all done within Manitoba. The seed cost itself is very insignificant to the labour cost, in putting the seed into the packets. So therefore, although the seed is imported, that is still an insignificant part of the cost. The cost is in the labour, putting the seed into the packets.

MR. J. McCRAE: Mr. Chairman, I don't know where we're at today. Perhaps as we chat, there is movement going on with respect to the sugar beet industry in this province, but it employs probably twice as many people in this province as McKenzie does. With annual sales at McKenzie of about \$14 million and there is an economic benefit to the province from the sugar beet industry of some \$90 million, it's passing strange that the government should subsidize annually the McKenzie Seeds operation and should be dragged, kicking and screaming, into an agreement - if that should ever come out - which should allow the continued viability of the sugar industry.

A MEMBER: Sure, we should close McKenzie.

MR. J. McCRAE: That's not the suggestion at all, don't be silly.

A MEMBER: Well, what are you suggesting?

MR. CHAIRMAN: Order.

There's another quarrel going on here.

MR. R. KIVES: The Honourable Vic Schroeder spoke and, by right, when I took over in 1984, there were three options: either close it, refinance it or sell it. Really, if we did sell it or close it, the cost of \$1 million in interest would go on forever. The company, under the Tories, the company under NDP, put in \$10 million and that cost is forgotten. Basically, there's \$1 million interest and our great-grandchildren will see this \$1 million interest and say, listen there was a mistake made 100 years ago and we're going to be paying this interest forever.

Now it's ridiculous to look at this costing the government \$1 million. Basically right now, there is no money being put into McKenzie Seeds, and it is employing 200 people, which would cost the company approximately \$700,000 a year in unemployment insurance, if they had to lay off all these people. Now either you want to employ people where it would cost money but, either way, it's going to cost the government \$1 million.

MR. J. McCRAE: Right, so why don't we tell it like it is? What's the point?

MR. C. MANNES: Mr. Chairman, I hear Mr. Kives in his explanation, loudly and clearly. I have no difficulty with what he says. From his perspective, he's trying his best to turn around a company that had some major difficulties.

But, Mr. Chairman, what's at issue here really is not the decision made by the Provincial Government in Cabinet as to which of the alternatives that they selected. Mr. Chairman, Mr. Kives has made a strong statement, in his view, as to which ones should have been selected. It wasn't.

What's at issue here, Mr. Chairman, is what happened behind the closed doors of Cabinet, where a Minister of the Crown, against the best advice that was given to him, decided to take the option that created the best perception for the Government of Manitoba. That's what's at issue, Mr. Chairman. It's the openness of government. I'm sure if the Minister of the Day and the Government of the Day had laid the alternatives openly before the public of Manitoba and said we have decided to choose No. C, that this issue would have long been forgotten.

But, Mr. Chairman, what we have here, which has flowed to us in some fashion - how I do not know - shows us within the secrecy of Cabinet, how this Minister and how this government makes decisions. It's based on keeping from the public, Mr. Chairman, the information that they have available to them. Mr. Chairman, we did not have, in 1984, the submission of the board of McKenzie Seeds to the Cabinet. That was kept from us, Mr. Chairman, and had that been available indeed to the public, we wouldn't be at this table arguing these points today.

So, Mr. Chairman, the question is not the choice made by the Cabinet, even though Mr. Kives said he strongly would have recommended Option 1, a complete write-off. The issue is the closed manner in which the government tried to hide this from the public of Manitoba and, therefore Mr. Chairman, create a false impression which would of course materially improve their 1984-85-86 election promises. So, Mr. Chairman, it's part of the scheme. Every time we find this, we will bring it to the attention of the people in whatever method we have to use.

So, Mr. Chairman, let not the Minister who, in his most indignant way, rises to accuse us of wanting to remove jobs, of closing McKenzie Seeds. Let him not take us off the main path, the main issue, and that is the closed nature by which the Cabinet handled this issue.

HON. V. SCHROEDER: Mr. Chairman, that's probably a statement that's almost as ridiculous as the statement

of his leader, that the fact that we operated in 1986 resulted in a \$900,000 loss to the taxpayer, which nobody on your side is now attempting to justify. Because that is not, as you know, whether it operated under our name, somebody else's name or was closed, we did not lose because we were operating in 1986. Had we closed, we would have lost \$1.2 million under your calculations. Because we were operating, we made \$300,000 off of even that. Had we sold, we still would have lost that \$900,000 and more, no matter how you worked it. Under your calculations that \$900,000 and more would have been gone.

Now, you talk about how we operate in Cabinet. We operate in Cabinet in the same fashion as any other Cabinet in this country, under the parliamentary system, excepting that I believe we're more open than most.

A MEMBER: And you're dishonest and this document proves it.

HON. V. SCHROEDER: Mr. Chairman, the document proves nothing. The statement from the Member for Morris proves his ignorance of our system. It proves that he doesn't realize that this document, before it came to me to go to Cabinet, went through two other processes after it came out of Brandon.

We get all kinds of requests from Crown corporations for all kinds of things and, just because we get a request from a Crown corporation doesn't mean that we're going to go along, even necessarily with what is independently in the interest of that particular operation, without looking at the interest of the overall shareholder. So we went through it with ERIC, and we went through it with the Department of Crown Investments. After we went through, it was then that the consensus emerged that this be the proposal to put to Cabinet. That is what is totally missing there.

Now when you say . . .

MR. J. McCRAE: Mention jobs every once in a while, okay? That's what the bottom line is.

HON. V. SCHROEDER: The Member for Brandon is very, very sensitive about jobs in Brandon.

MR. J. McCRAE: Of course, I'm sensitive.

HON. V. SCHROEDER: What he is not asking us to do, Mr. Chairman, is do the same accounting for sugar beets as he wants us to do for McKenzie Seeds. No member of the Opposition has suggested that we set up - because in 1985 we spent \$3 million on sugar beets - that we should now show a \$300,000 loss on sugar beets for 1987 in our books; nobody is saying that on the Opposition. And I think it would be stupid to do that, just as stupid as the argument that the Opposition is making here; just as stupid.

What the Opposition is saying, if they are going to be consistent between sugar beets and McKenzie Seeds, they are going to have those kinds of numbers showing too, and that's something that they really don't want to do.

The key point is the Leader of the Opposition who is here, I would challenge him to explain how it is that, as he says, given the profit of \$303,000 in fact it has

cost the province over \$900,000 to have McKenzie Seeds operating last year, this past year; that's what he said.

Mr. Chairman, that is fundamentally inaccurate. Had we not been operating and had that place been closed, we would have lost, under his accounting, \$1.2 million. Had it been in the hands of Peter Pocklington or some other wonderful entrepreneur, we would still have lost the \$1.2 million. The fact of the matter is the Leader of the Opposition and his buddies at the "Enquirer" were wrong on it.

MR. CHAIRMAN: The Member for Portage la Prairie.

MR. E. CONNERY: It's really unfortunate that this Minister gets down into the scum. Every time we have a meeting, we get into filth; we can't even carry on a proper meeting.

I would like to know what the purchasing policy is for McKenzie Seeds. Purchase Manitoba first or . . .

HON. V. SCHROEDER: Explain yourself.

MR. E. CONNERY: I asked a question: Is it the policy?

HON. V. SCHROEDER: They won't address that question.

MR. E. CONNERY: Mr. Chairman, am I getting an answer to my question or not? I asked a question.

MR. CHAIRMAN: The Member for Portage is asking a question. Is there an answer?

HON. V. SCHROEDER: Is there an answer in the House? I don't know.

MR. E. CONNERY: Well, you've got the employees here, they're supposed to give the answers.

MR. CHAIRMAN: Mr. Guelpa.

If the members would like to hold a conversation, they can do it in the hallway, but this is a committee.

MR. F. JOHNSTON: Mr. Chairman, on a point of order.

MR. CHAIRMAN: A point of order.

MR. F. JOHNSTON: We have been having a lot of blabber and a little chat from the House Leader of the NDP Party who has been saying across the House, table . . . (inaudible) . . .

A MEMBER: . . . the document.

MR. F. JOHNSTON: But he is also saying that the practice is to table a document . . .

A MEMBER: It is.

MR. F. JOHNSTON: And he also knows the rules. There is no reason why we have to table that document if we don't want to.

SOME HONOURABLE MEMBERS: Oh, oh!

MR. F. JOHNSTON: It is not a signed document . . .

HON. V. SCHROEDER: It's a stolen document.

MR. F. JOHNSTON: . . . and, Mr. Chairman, if we get to the point at any time when documents would come into Opposition's or whoever else's hands by whatever reason whatsoever from government, we will never solve that problem. And the leader of the government is trying in his usual way to confuse, saying "table it," and - (inaudible)- There is absolutely no reason for his phoneyess which he plays all the time, and there is no reason for us to have to table that document. That is fact; that is the rule.

Now can't we get on with answering the Member for Portage la Prairie's question?

MR. CHAIRMAN: Let me read the rules here for the benefit of all the members of the committee.

"If a Minister cites or quotes an official document in debate, he should be prepared to table it. A private member has neither the right nor the obligation to table an official or any other document."

MR. F. JOHNSTON: Mr. Chairman, a point of order.

MR. CHAIRMAN: A point of order.

MR. F. JOHNSTON: . . . - (inaudible)- when he loses, because of his practices in the way he operates the House, when he loses, he tries to create confusion within the committee.

I ask you again, Mr. Chairman, answer the question from the Member for Portage la Prairie, and let's get on with it.

MR. CHAIRMAN: Mr. Guelpa has the floor, and he wants to answer and he has no chance because people are talking.

Mr. Guelpa.

MR. K. GUELPA: Mr. Chairman, the company has a policy to purchase goods and services from suppliers who offer the best quality service and price. If all the above are equal, the company will proceed in the following order, keeping in mind sound business practices: (1) Brandon and surrounding area will be given preference; (2) the Province of Manitoba; (3) Canada; and (4) the USA or other countries.

MR. E. CONNERY: I have a little difficulty in the sense of Brandon first in the sense that all Manitobans are subsidizing McKenzie Seeds, so I would agree with the Manitoba first.

With your Dutch sets, are you importing any from Holland or from other areas outside of Manitoba?

MR. K. GUELPA: Mr. Chairman, the majority of our onion purchases come from Manitoba, but we do import Dutch sets from Holland. This accounts for a small portion of our overall onion purchases in Manitoba.

MR. E. CONNERY: Why would the company import from Holland when you can contract in Manitoba for all the supplies that you require?

MR. K. GUELPA: Mr. Chairman, the reason we can't buy locally is because the prices are too high, given the world market. Since our mandate from the board of directors is to operate on a profitable basis, we seek to purchase the best quality at the best price and, this year, it happens to be Holland has the best price.

MR. E. CONNERY: What portion would you be bringing in from Holland in a company that's subsidized by the people of Manitoba?

Also, let's acknowledge that the set industry, in turn, employs a lot of people. There is a lot of work in producing the final product. You are exporting Manitoba dollars and Manitoba jobs to Holland. Surely the growers can be reasonably competitive.

MR. K. GUELPA: Mr. Chairman, I, as president of McKenzie, operate McKenzie as a business entity. I am not responsible for subsidizing other workers within the province or interfering in the government's mandate for creating jobs.

If the government desires to subsidize the onion set growers in Manitoba, I'm sure Mr. Schroeder could handle that, or another Minister.

MR. J. McCRAE: Mr. Chairman, a question for Mr. Guelpa.

Does McKenzie Seeds have any suppliers or accounts in Florida?

MR. K. GUELPA: Mr. Chairman, we have probably over 2,000 suppliers worldwide, and I don't have a complete list here. I would have to say, unless he can name a specific supplier, I'm not particularly aware of a large supplier in Florida but it's possible that we may, in our Catalogue Division, obtain something from Florida.

MR. J. McCRAE: Mr. Chairman, I'll ask Mr. Kives, does the Minister responsible for McKenzie take an active role in the day-to-day operations of McKenzie Seeds?

HON. V. SCHROEDER: No.

MR. J. McCRAE: Has the Minister ever done so?

HON. V. SCHROEDER: No.

MR. J. McCRAE: Then I take it that there would be no need for this Minister to travel on behalf of McKenzie Seeds to places like Florida?

HON. V. SCHROEDER: No.

MR. J. McCRAE: Nor would there ever have been a need, either with this Minister or the previous Minister, to travel to Florida on behalf of McKenzie Seeds at McKenzie expense?

HON. V. SCHROEDER: I would have to know the circumstances. I really wouldn't want to say how . . .

MR. J. McCRAE: You said no a minute ago.

HON. V. SCHROEDER: You know, every Minister operates their functions in different fashions. I tend to

simply deal occasionally with Mr. Guelpa, Mr. Kives and members of the board and so on. Other Ministers may have had a more hands-on approach. I wouldn't want to say their approach is better or worse, or whatever.

MR. J. McCRAE: Mr. Chairman, the Minister a few moments ago made it quite clear that the Minister has no part in the day-to-day operations of McKenzie Seeds.

HON. V. SCHROEDER: Mr. Chairman, I made it very clear that this Minister isn't doing that. I also pointed out that different Ministers have different operating styles. There are different times in history when different things happen. I recall, as an example, the Minister in charge of Flyer Industries several years ago was putting probably half of his time into Flyer Industries at a specific time. I know that there was travel involved and so on. So I'm not going to suggest that this particular function should be always carried out in the manner in which I have carried it out.

MR. J. McCRAE: Perhaps the Minister can look into this and let me know after this committee hearing is over, but it's my understanding that way back in 1972 . . .

HON. V. SCHROEDER: Oh boy!

MR. J. McCRAE: . . . the previous Minister responsible for McKenzie Seeds and his spouse visited Florida with Mr. Alex Cham, previously then Chairman of the Board of McKenzie, and I understand also that that Minister's expenses were charged to McKenzie, and I know that honourable members on the New Democratic side of this committee would make light of this because it's - after all it would only be taxpayers' money if it were true, so it wouldn't really matter - but this was in January or February of 1972. Perhaps the Minister could find out for me what the purpose of that trip was.

HON. J. COWAN: On a point of order.

MR. CHAIRMAN: Point of order.

HON. J. COWAN: Mr. Chairperson, previously I believe it was the Member for Lakeside who asked the very explicit question and, by doing so, indicated very clearly that we were considering the Annual Report of McKenzie Seeds for the present year and not considering activities that took place in 1972. But if the Member for Brandon West wishes more information in respect to . . .

MR. J. McCRAE: Well, be open and forthcoming so you can provide the information . . .

HON. J. COWAN: Since we go back that far and sensing the urgency in his request and the obvious priority that he places in finding out this information over information as to how the operation is functioning presently, and what the success of the operation may be in the future, we will endeavour to treat that request with the appropriate response from the government.

MR. CHAIRMAN: The committee had better make up its mind. Does it want to dig up the past or does it

want to consider the present? According to our rules, Rule 30: "Speeches shall be direct to the question under consideration or to a motion or amendment that the member speaking intends to move, or to a point of order."

MR. F. JOHNSTON: On a point of order that the House Leader of the Government brings up, it was the Minister who started to talk about the finances of the company during a different period of time than we're discussing at the present time.

And of course the Minister conveniently didn't mention that there was a financial consultant's report done on McKenzie Seeds which showed mismanagement, which showed everything that we had to correct. It was corrected and those reports are all available. If you want to, during the committee now, we'll go and dig out all of those reports and all of the things that happened in the past, I'd be very happy to. But I said earlier that we could get on with the business.

HON. J. COWAN: I'll try not to confuse members opposite because that's exactly what I had indicated and the Member for Sturgeon Creek reinforces the fact that we should be discussing the annual report that is before us. The information which the Minister brought forward earlier directly related to the annual report which is before us.

The information which the Member for Brandon West brought forward - and the question itself is somewhat silly - but if he believes that's an important question to be answered in the context of how to make McKenzie Seeds work better for the province, for the community of Brandon and for the workers involved, then we'll undertake to provide that information to him. But I quite frankly think that the Member for Sturgeon Creek is correct and that we should be dealing with the matters that are more at hand and more important to the people of the province than who took a trip in 1972, with whom, to what place.

MR. CHAIRMAN: One point of order.

If the Member for Sturgeon Creek wants to be on the record, he'd better get to a mike, because his voice, what he's saying is not being recorded.

MR. F. JOHNSON: Well, I'm sorry. I'm trying to speak loudly enough that I can be heard. Just on the same point of order, let it be noted it was this Minister who started to go back in history first.

HON. V. SCHROEDER: Mr. Chairman, that was exactly one spokesperson after the Opposition raised a refinancing which took place two and a half years ago. So I didn't start going into history and, if we want to go into history, 1972 is perfectly okay with me if you have nothing better to do with your time this morning.

MR. F. JOHNSTON: I might say it's this Minister who's used silly, stupid, all of those words so far in this committee.

MR. J. McCRAE: Mr. Chairman, we don't seem to see any positive demonstration of the statements these Ministers make on a regular basis that they want to

be open and forthcoming. Instead of trying to stifle members of the Opposition at every turn, it might be better if they just did what they could to make the information available and we could get on with this committee hearing.

MR. CHAIRMAN: The Honourable Minister.

MR. J. McCRAE: Mr. Chairman, I'm not finished. I'm not yet finished.

What is the policy of this Minister regarding receptions held for family members of this Minister and paid for by McKenzie Seeds?

HON. V. SCHROEDER: The thought hasn't come up.

MR. J. McCRAE: If the matter should come up, will the Minister allow McKenzie Seeds to pay for receptions held for members of his family?

MR. CHAIRMAN: Is there objection to the question?

HON. J. COWAN: Well, it's hypothetical.

A MEMBER: Is it? Is it?

HON. J. COWAN: If the Member for Brandon West has a point to make, let him make the point. He should know, because he's becoming better versed in the rules, that hypothetical questions are out of order. I am certainly he has the ability to rephrase it so that it's not hypothetical.

MR. J. McCRAE: This is a committee of the Legislature, Mr. Chairman, this is not question period. If the Ministers are so anxious to hide from the truth, let them come right out and say so and then we can just adjourn the committee and take it from there.

If these Ministers want to keep hiding facts and keep hiding from the truth and hide from the people of Manitoba what the true facts are, we're in difficulty. It's my job, as a member of the Opposition in this province, to bring forward matters of importance to Manitobans.

HON. V. SCHROEDER: Mr. Chairman, I want to assure this committee that we'll go back if we find out anything about a trip in 1972. We'll even ask Mr. Guelpa whether his father was along, or his grandfather, on the trip. We'll try to get that information.

Mr. Chairman, when it comes to hypothetical questions, I don't know how to deal with them.

MR. J. McCRAE: Perhaps the Minister will answer the questions rather than make so many comments which have nothing to do with the questions.

I understand, Mr. Chairman, that on July 16, 1982, at the request of the then Minister responsible for McKenzie Seeds, Mr. Bill Moore organized a reception for the Minister's family and friends at the Winnipeg Inn. This reception was held after the Princess Ann concert at the Centennial Concert Hall. The hotel for the reception, Mr. Chairman, was \$513.62 and was paid for by McKenzie's. The liquor bill was in addition to the hotel bill and I understand that was paid by

McKenzie's as well. Mr. Chairman, amongst those attending were the previous Minister responsible for McKenzie Seeds and his spouse, the previous Minister's brother and his wife . . .

MR. CHAIRMAN: A point of order being raised.

MR. J. McCRAE: . . . the previous Minister's daughter.

MR. CHAIRMAN: A member can be interrupted if it's a point of order.

HON. V. SCHROEDER: Mr. Chairman, we've seen low blows. Under our system at least the trial should be in front of the accused. One shouldn't have trial in absentia under our system without any kind of notice. Of course, as the House Leader points out, that system doesn't apply to kangaroo courts, but if the member really feels he's got to get it off his chest without the Member for Brandon East being here to hear his accuser, without notice to the Member for Brandon East, then go ahead.

MR. J. McCRAE: Mr. Chairman, the Honourable Member for Brandon East is a member of this House. I assume that he knew that the committee was sitting here today. The present Minister has told us this matter has not been dealt with by him. I'm putting some facts on the record and I'm asking this Minister if it's the policy of this government to bankroll such receptions. If it is not the policy, then I'm going to ask when the policy has changed. The Minister hasn't yet answered. I asked him the question, he chose not to answer the question and so now I put some facts to him.

Also attending at the reception were the former Minister's daughter's common-law husband, and I understand also that another member of the former Minister's family, another daughter, was in attendance as well as his son-in-law. Mr. Russ Doern was in attendance; Mr. Bill Moore and Myrna Campbell were in attendance; as was Mrs. Meighen, Mr. Moore's sister. How much was the liquor bill? Can the Minister tell us that? Who else attended? What was the purpose of the reception? Was this reception in some way in the course of his duties as Minister responsible for McKenzie Seeds? Will the Minister look into that and get back to me with the information?

MR. J. DOWNEY: The real question - was Princess Anne invited? That's the real question.- (Interjection)- I do, damn right, it's serious. Abuse of taxpayers' money.

MR. J. McCRAE: Is there an answer, Mr. Chairman?

HON. V. SCHROEDER: I gave one.

MR. J. McCRAE: What was the answer?

HON. V. SCHROEDER: Sure.

MR. J. McCRAE: Mr. Chairman, is it government policy that in order to do business with Manitoba Crown corporations you must donate money to the New Democratic Party?

HON. V. SCHROEDER: Mr. Chairman, I was informed the other day that there was a Manitoban who had

Tuesday, 5 May, 1987

become of the view that in fact it was the other way around. The only way you could get business from the government was if the party had actually paid you money, because that's the argument you're using in the House, Mr. Chairman. I'm sorry, the Opposition is using that argument in the House regarding a paid-up member of the Liberal Party who was running against us in an election just several years ago from whom we rented some space. They were saying that because we had paid him money we had an obligation to him to do something else for him, and now of course . . .

MR. CHAIRMAN: With due respect, I don't see the relevance of this line of questioning.

MR. J. McCRAE: Mr. Chairman, I agree with you. I don't see the relevance of his questioning either.

MR. CHAIRMAN: The rules of the House states that speeches shall be directed to a question under consideration. The question under consideration is A.E. McKenzie Report, Consolidated Statement, 1985. The Member for Brandon West.

MR. J. McCRAE: Mr. Chairman, did this company sell some equipment to the Ontario Seed Company of Waterloo, Ontario in 1985 or early 1986?

MR. CHAIRMAN: That's a factual question. Mr. Guelpa.

MR. K. GUELPA: Mr. Chairman, we have many pieces of equipment at McKenzie and we would have to have specific reference to a particular piece of equipment in order to answer it.

MR. J. McCRAE: Okay, Mr. Chairman, I'm not familiar with the equipment used for packing seeds, but I understand there's a Ballard machine. There's a machine named Ballard?

MR. K. GUELPA: A brown bag?

MR. J. McCRAE: I don't know. I understand, Mr. Chairman, that some Ballard packing machines - packing machines?

A MEMBER: God, he knows.

MR. J. McCRAE: Were sold to the Ontario Seed Company.

A MEMBER: We've got to get the serial number.

MR. K. GUELPA: Mr. Chairman, I'm not asking for serial numbers, but if the member is referring to something that we call brown-bag packaging equipment, I believe that in the past we have sold one or two, but I don't know particularly to who. It could be to this company. We'll have to check.

Mr. Chairman, it is the policy of the company that when equipment becomes obsolete we will, as we have done just recently sold a piece of equipment to a company in the U.S. This is normal policy of the company.

MR. J. McCRAE: Perhaps we can get to the U.S. sale in a moment, Mr. Chairman.

I'd like to deal with what I understand are Ballard packing machines. Don't ask me the serial numbers or what exactly they do, or whether they're brown bags or yellow bags or what they are. But I understand that either in late '85 or thereabouts, McKenzie sold two Ballard's packing machines for \$1,500 to the Ontario Seed Company of Waterloo. These machines apparently had been purchased with the Pike assets when McKenzie's purchased Pike and Company of Edmonton. Does that jog Mr. Guelpa's memory?

MR. K. GUELPA: Mr. Chairman, I'm seeking advice from my vice-president of finance and, to his recollection, I can't remember the specific transaction. He says that it's his recollection that we did sell one. We call it brown bag, if that is what we are both talking about, to an Ontario company and it could be the company that the member is saying.

MR. J. McCRAE: Would Mr. Guelpa have any idea of what the value of that machine would be? What will it cost to replace and what the amount it was sold for? And if not, can he get me that information?

MR. K. GUELPA: Mr. Chairman, I don't carry our asset book around with me; I would have to get the information and give it to the honourable member.

MR. J. McCRAE: Mr. Chairman, perhaps while Mr. Guelpa is doing that he could find out for us the capacity of these machines.

I understand they have a capacity of some 18,000 packages per eight-hour shift per machine. I understand also that the Ontario Seed Company is a competitor of McKenzie's, and that the Ontario Seed Company now, because of its increased capacity, because of the machines, if indeed these are the machines we're talking about, because of that capacity it now has, is now doing business with some of McKenzie's accounts.

If the machines were sold to a competitor at a bargain-basement price, and these competitors are now doing business with McKenzie's accounts, it strikes me as not the best sale in the interests of the workers at McKenzie's at Brandon, or indeed, the interests of the taxpayers of this province.

I understand that Ontario Seed's, with the excess capacity, was able to offer packaged seed for 12 cents a package to its accounts, and allowing a 10 cents per packet credit on returns. I understand that McKenzie's retail seeds at the prices for McKenzie's seeds are retail less 50 percent, less a volume rebate, but the bottom line for the account of McKenzie's is that those account costs per packet is 33 cents. So it's pretty hard to compete at 33 cents when you're competing with a 12 cent packet.

Now this is the issue that I'd like to have Mr. Guelpa look into.

MR. K. GUELPA: Mr. Chairman, the information that the honourable member has is not correct. I don't know where he's getting his information. If he would care to identify where he's getting it from, I would be prepared to have a debate with the person who's giving it to

him. I'm not a production expert, but the reason that we sold off our brown-bag machines is probably because they were written down to a zero asset and, therefore, were written off within the company.

In addition, in our experience, I have been told by my production vice-president that the brown-bag machines are the most inefficient in the industry. The machines that McKenzie have are all high speed and produce 50,000 to 60,000 in an eight-hour shift whereas the brown bags are only 18,000. So if we are to give our competitors inefficient equipment and get paid for it, then I think that that would be probably a good deal for us.

It is not the policy of the company to put our competitors at an advantage to us, but it is the policy of the company to maximize the return of obsolete and outdated equipment. As for the fact of whether they use this equipment to then come back and compete with McKenzie, Ontario Seed's has been competing with McKenzie - I've only been with the company since 1984 - but it's my understanding that they have been competing with the company for the last 20 years.

They continue to be an aggressive supplier in the market and, because of the nature of a family-run business, they are able to take advantage of certain structures that we don't have, and I would suggest that their ability to sell seeds on the market at a lower price than us does not come from their equipment edge, because we clearly have an edge in that area. It comes from their desire to make a lower margin because their company can afford to do that, or some other reason.

Mr. Chairman, I'd also like to point out for the record that there's been a lot of discussion this morning going back to 1972, 1969 trips, etc. For the record, the management of this company has only been in place since 1984, with myself as president and, therefore, anything before 1984, this management or this company cannot really relate to.

MR. J. McCRAE: Mr. Chairman, I'm very well aware of that and I recognize that and I agree with it; but I do know that for the last number of years we're paying an average of about \$1 million a year on borrowing cost that this government has had to borrow money in order to keep McKenzie's in business. Because these things are of great concern to us, we want to see those matters dealing previous to Mr. Guelpa's taking the position of president do help explain why the government has these long-term borrowing costs today.

I'm glad Mr. Guelpa was able to point out that the facts that I've put forward are incorrect. If that indeed is the case, I would appreciate hearing from Mr. Guelpa further on the matter.

I will ask if Zeller's Inc. was once or is still an account of McKenzie Seeds?

MR. K. GUELPA: I'm sorry; could the honourable member please repeat the question?

MR. J. McCRAE: Does McKenzie's still supply seeds to Zeller's Inc.?

MR. K. GUELPA: Yes, Mr. Chairman, we still supply seeds to Zeller's.

MR. J. McCRAE: Does McKenzie's supply more or less to Zeller's now than it did a year or two ago?

MR. K. GUELPA: Mr. Chairman, Zeller's is a large national chain with a very competitive buying policy and, if my memory serves me correctly - I've got to get my ears right - in 1986, we did have Zeller's and I think we lost them to a competitor in 1987, which would be the year we're in right now.

So the answer to the question would be, depending whether you're talking about the report in 1986 or you're jumping ahead into 1987, we've sold more or less.

MR. J. McCRAE: To which competitor would that account have been lost in '87?

MR. K. GUELPA: I'm sorry, the name of the company escapes me. It's an eastern company.

MR. J. McCRAE: Mr. Chairman, I'm just wanting to satisfy myself that it wouldn't be the Ontario Seed Company?

MR. K. GUELPA: Mr. Chairman, I'm sorry, I don't have the information available. If the member would like it, I will get it to him.

MR. J. McCRAE: If that information could be made available, I'd appreciate it.

Also, Mr. Chairman, respecting the Steinberg Company of Montreal, which I understand operates about 250 stores, is it now or has it ever been an account of McKenzie Seeds?

MR. K. GUELPA: Mr. Chairman, Steinberg's is another account that we sell from time to time, and Steinberg's comes in and out of our buying purview, depending on the prevailing price within the market. I believe this year they are out; last year they were in.

MR. J. McCRAE: If Steinberg's are out this year, I assume they still sell seeds and I wonder where they're getting their seeds from now?

MR. K. GUELPA: Mr. Chairman, I believe the name of the company is Bottinex (phonetic), a Quebec company.

MR. J. McCRAE: Does Bottinex have any relationship with the Ontario Seed Company?

MR. K. GUELPA: Mr. Chairman, I don't know. If the honourable member has some information that he would like to pass along, I'll be more than happy to look at it. I would like to gather competitive information from wherever.

MR. J. McCRAE: I'm sorry, Mr. Chairman, I can't be more helpful to Mr. Guelpa. Perhaps, though, it would be useful if he could provide me with the information about these Ballard packing machines, because this involves the Steinberg and the Zeller's accounts and what not.

Earlier, Mr. Chairman, Mr. Guelpa referred to an American firm buying some equipment from McKenzie's. What kind of equipment would that be?

MR. K. GUELPA: Mr. Chairman, we had a piece of equipment which was inefficient, which also packaged

seeds, and we did not want this equipment because it was efficient, to appear in the Canadian market. Therefore, we took the precaution of putting a blind ad in the U.S. We have sold it to a company in the U.S. for the primary purpose of export to South America with the clear understanding the equipment can in no way come back into Canada during its useful life.

MR. J. McCRAE: What about the seeds packaged by that equipment? Are they also not allowed to come into Canada?

MR. K. GUELPA: No, the seed company does a small portion of its business in Canada and there was no provision that they could not compete in Canada. We felt that there was no danger to us in this area; that the majority of the use is for the export market and the company derived a considerable amount of money which allowed us to buy a more efficient piece of equipment at basically no cost.

MR. J. McCRAE: Perhaps Mr. Guelpa could tell me - is this a hauler, or holer, form and fill machine? Can he tell me what the machine sold for and what its replacement cost is?

MR. K. GUELPA: Mr. Chairman, I would have to take counsel from someone. This was a private transaction between a U.S. company and our own and I do not know whether that U.S. company would like the price disclosed so I would have to . . .

HON. V. SCHROEDER: Well, Mr. Chairman, it seems to me we have the right to know whether it was fair market value. I don't think that beyond that, that there is any right to know, and I think that's the assurance we should be getting.

MR. CHAIRMAN: Maybe the answer could only be limited generally as to whether it is fair market value or not, and not be specific as to price.

MR. K. GUELPA: Yes, we believe we sold it at fair market value, at what the market was willing to pay for similar equipment.

MR. J. McCRAE: Will this information be forthcoming as to the price received for the machine by McKenzie's?

MR. K. GUELPA: Mr. Chairman, I will contact the U.S. buyer and if he has no problem with me telling the member what we paid for it, we will be more than happy to.

MR. J. McCRAE: Thank you.

Mr. Chairman, I think the Minister wants to deal with a letter he received last week, I believe, from the Manitoba Nursery and Landscape Association, the matter of McKenzie Seeds competing with various other firms. It is there some concern to the Manitoba Nursery and Landscape Association. I know that the comments contained in the letter written to the Minister are comments with which he doesn't necessarily agree and I'd like to give him the opportunity to set the record straight today.

HON. V. SCHROEDER: Mr. Chairman, on that - I had sent a reply to the letter writer. I'm not sure that I have a copy of it here but I'm sure that it can get down here fast. I'm not talking about the letter they wrote but rather the reply that I wrote to them. I can give the member a copy of that, my reply, so that he will see clearly exactly what our position is. But basically we're saying that we are simply following regular business practices. We're not trying to undercut anybody but when we have inventory that we expect we're going to lose the whole bundle on, we would rather get a part of the price, just like anybody else in the business.

We've been doing that for years. It's not some new practice. We don't think we're different from any one else in the business.

Just a couple of other things. We thought it would be appropriate to call the Member for Brandon East who is busy with other things this morning and ask him about some of the important issues raised this morning.

First of all, regarding his trip to Florida in the early 1970's, he did go to Florida on personal expense, on a personal holiday which he recollects with some fondness. He got a bit of a tan. He lost the tan but still had to pay the money. He also said that he had the opportunity to go to a little bit of a party at Bill Moore's hotel room in Winnipeg a few years ago in 1982.

He said: Yes, he probably did have a good time. He had some family members with him. He was invited down there. He had no idea that McKenzie Seeds was being charged for it nor does he know that they were charged for it. He assumed that Bill, who was in town and invited him, was doing it on his own and - (Interjection)- well, I don't know, I know Tories tend to be fairly unsociable. They wouldn't think of inviting somebody's family over for a little . . .

Mr. Chairman, I pointed out to the members of the committee that this individual believed that Mr. Moore was the host and was paying it. He had no reason to believe - and there's so far no evidence that Mr. Moore did charge the company - and if he did, then - and quite frankly given his record later on, and the evidence of that record, I wouldn't be surprised if he did charge it to the company.

That is something that I quite frankly wouldn't want to blame the Minister for Brandon East for. I think that's not good conduct. I think it reflects again on Mr. Moore but beyond that I really don't think that there's an awful lot to the story.

MR. J. McCRAE: Mr. Chairman, that's something that the Minister can decide for himself but perhaps he can make available to us some evidence that - I mean, how can you attend a party with your family members and not ask who's paying for the party? You know, that's the point and maybe the Minister can supply us with some details.

HON. V. SCHROEDER: That is incredible. Mr. Chairman, this really makes me angry. Just a week or two ago - maybe I shouldn't raise a personal thing but I was invited to a Bat Mitzvah for Mr. Kives' daughter. I was unable to attend because I happened to be in Brandon that day on business. But I wouldn't have thought of visiting

Tuesday, 5 May, 1987

the indignity on Mr. Kives of asking him who was paying for it.

I would think if I was invited to somebody's hotel room who was coming into town from somewhere else on a personal basis that that person was paying for the party. I find it just insulting that people should expect that everyone they deal with is going around and improperly using expense accounts.

MR. J. McCRAE: Mr. Chairman, all I . . .

MR. CHAIRMAN: I'm sorry. Unless the member can prove the relevance of this, I don't see any wisdom in pursuing this line.

MR. J. McCRAE: Mr. Chairman, the relevance is that we are dealing with millions of dollars of taxpayers' money to subsidize this company today as a result of things that were going on before the present team came on the scene. That is obviously very important for the taxpayers of this province, those who are footing the bill, to know about.

How it can be found to be not relevant to this publicly owned corporation is beyond me, Mr. Chairman, and I wouldn't think the Chair would want to be involved with trying to keep the government from being accountable.

HON. V. SCHROEDER: Well, Mr. Chairman, then if you want to really go after the big bucks, instead of talking about the \$500, let's talk about the \$2 million and the more than \$1 million in 1979 and '80 that the corporation lost. That's where the real history is in terms of what is causing any kind of a problem in terms of where the debt came in.

If you're going to get serious about discussing where the problem is, let's not talk about a thousand dollars; let's talk about millions of dollars. Let's get some things into perspective. Let's not just look at the little trees; let's look at the whole forest.

Certainly, Mr. Chairman, I would support your ruling that we should stay within '85-86.

MR. J. McCRAE: Mr. Chairman, I asked a question about a letter to this Minister from Manitoba Nursery and Landscape Association and we get into this discussion. This is relevant, Mr. Chairman, to what's going on today and the Minister is attempting to deflect attention away from this letter. Is there something sinister about this letter?

I am given to understand that there are factual errors in this letter respecting the amount of competition being put up by McKenzie and how many of their products are involved in this competition. Surely, the Minister would have liked to address that question instead of wallowing in the mud as he so often likes to do and as he's accusing others of doing.

Would the Minister like to address - oh, he's provided me with a copy of the letter that he sent to Mr. Leclair of the Manitoba Nursery and Landscape Association. But in addition to Mr. Leclair, Mr. Chairman, I have to tell the Minister that certain operators in my community have been in touch with me about it. I understand one of them has been in touch with Mr. Guelpa and Mr. Guelpa has explained the situation, but for all nursery

and landscapers in this province, it would be good that the Minister make it known that some of the facts contained in this letter from Mr. Leclair are incorrect and that their concerns may not be quite as grave as they might at first have thought.

HON. V. SCHROEDER: Well, Mr. Chairman, the member may not have wanted to get more goo on his Gucci's by attacking the Member for Brandon East. I guess the devil made him do it, but he did it. He did it this morning, and I think that kind of a kangaroo court trial in absentia of a member for something that took place 15 years ago, and it was personal in 1982, deserves a bit of a response.

In terms of the issue he now raises for a second time, I informed him, before I started in on the answer to that, that I had written a letter back to Mr. Leclair and that I would be giving him a copy of that letter and the Member for Brandon West, in fact, had a copy of that letter on his table in front of him during the last half of his latest harangue.

The letter reads: "Dear Mr. Leclair: Thank you for your letter of April 25, 1987 regarding your concerns with merchandising practices of A.E. McKenzie Co. Ltd.

"Subsequent to the receipt of your letter, I contacted the president of McKenzie Seeds, who assured me that the information contained in your correspondence suggesting improper business ethics of McFayden was incorrect

"To set the record straight, during June 1986, McFayden's did have sales advertising 50 to 75 percent off nursery stock items. However, I'm advised that these sales were only on selected items, a limited stock, and only for a short period of time. The stock numbered approximately 50-75 different nursery stock items that were advertised five times in June.

"These 50-75 items represent less than 1 percent of the store's total selling units of approximately 1,500-2,000 items - not, as you indicated, a 50 to 70 percent discount on every item in their store. These special sales have been occurring for the last five to seven years following the standard business practice of trying to recover some money for overstocked items rather than having a write-off of 100 percent for the entire stock.

"In closing, I would like to stress that, as Minister responsible for McKenzie Seeds, I feel that McKenzie and McFayden ought to and do follow responsible business and merchandising practices, and I am proud of the fact that McKenzie's has recorded a profit in each of the last three years. Yours truly."

MR. J. McCRAE: I suppose we're going to see this "I am proud of the fact that McKenzie's has recorded a profit in each of the last three years" on every piece of stationery, and it may even form part of the letterhead in the future, Mr. Chairman, but the facts are here. The Minister can't fool the people of this province even though he tries with his secret Cabinet documents.

I appreciate the fact that the Minister has addressed the concern of the Manitoba Nursery and Landscape Association, but I really wish he wouldn't mislead them by telling them that McKenzie's has recorded a profit in each of the last three years. If every nursery in Manitoba was given the kind of subsidy that McKenzie's

is, I dare say they'd be recording profits every year too.

MR. CHAIRMAN: The word "misleading" appears on both sides of the list.

The Honourable Minister.

HON. V. SCHROEDER: Mr. Chairman, I have a number of times, this morning, pointed out that the taxpayers have not put additional money into this company over the last three years; that, in fact, we didn't lose any money as a result of operating that company in 1986, and to say otherwise is distorting history; that the figures hypothetically referred to by the Opposition relate to an assumed borrowing cost for money put into this company that in many instances was not borrowed money. It came out of a general pool of government revenue. In any particular year, government brings in - say, back in 1979, the Lyon Government brought in maybe \$2 billion in revenue, had a deficit of \$200 million, for a total of \$2.2 billion - out of that money, some money went towards the deficit of McKenzie Seeds.

Now what these people are trying to do is say that all of it was borrowed money, that the taxpayers weren't taxed at all for any portion of it and so on. But the bottom line is that it is not true that it cost the province \$900,000 to operate McKenzie Seeds in 1986, and none of the president's men sitting around here this morning have attempted to suggest otherwise. They've said, oh, we've got to look at this sheet - a sheet which is produced by no other Crown corporation or private corporation on this continent. Nobody does that.

They want to treat this company entirely different from the people they're referring to previously, the sugar beet farmers. They're saying we should have an entirely different accounting system for McKenzie Seeds than we have for sugar. Don't show the money we put into sugar and say, well, every year we have to pay interest, but on McKenzie Seeds you should do that. Why? What is your hang-up on McKenzie Seeds? Why should it be treated differently from Canadian? Why should it be treated differently from sugar?

So I say to you that on current operating, which is the only logical way to calculate this, the government isn't putting more money in; the government has received money back this year. If you can read the account, you'd know that we received some hundreds of thousands of dollars back from McKenzie Seeds. We have received the taxes of the individual employees, we have received the health and education levy and all the other things that the company pays into the province, and we haven't put a penny back towards them in the last three years. And you keep running it down and putting the company in jeopardy.

I think that is a tragedy and I think that the people in Brandon are beginning to realize how damaging the Conservative actions are, that they really want to, desperately, if they should ever get back into power, they desperately want to close this place or sell it off and somehow that will end the problem, which is sheer nonsense, sheer sophistry, because no matter what they do, whether they sell it or close it or operate it, they could continue on forever presenting that kind of a sheet, as our chairman indicated, with no change.

MR. A. KOVNATS: I'm really saddened and sorry that the Honourable Minister was not able to attend the bat

mitzvah of Mr. Kives' daughter because of a previous commitment. I would like the record to show that the Member for Niakwa was never even invited to the bat mitzvah.

I wonder whether the Minister can advise where the seeds that are - well, I'll go back one question before that. Why were there lower sales at McKenzie Seeds last year in comparison to previous years? Was it because of the stronger competition? Was it because McKenzie Seeds was offering an inferior product? Can I be advised as to what was the reason of the lower sales?

MR. K. GUELPA: Mr. Chairman, to perhaps just put it in perspective, I think the honourable member is saying why are the seed sales down, because within our . . .

MR. A. KOVNATS: Yes, I'm sorry, seed sales only.

MR. K. GUELPA: . . . balance sheet, and I did mention that in my opening statement, the reason for that is the whole consumer market for vegetable and garden seeds is declining every year. It's a shrinking market. This phenomena is not only seen in Canada; it's seen world-wide in the U.S. and Europe.

The reason for it is the changing cultural habits of the people who are buying. With more leisure time, with more working women, people are gardening less, and all our surveys show that this decline will continue until such time as people return to gardening as a form of leisure and, therefore, this is the reason why our sales decline.

That is not to say, from time to time, we don't lose a competitive account to the competition. We have over 10,000 accounts in Canada and we lose some of them, and every year we gain some back; so it is a continually changing environment.

MR. A. KOVNATS: I guess when you're in business, you've got to know your competition. It's the proper way to run a business and know what your competition is doing.

Can I be advised as to whether any of the competitive companies in Canada - and I don't think I want to go into world markets or the United States at all - but any competitors in Canada, did they increase their sales on packaged seeds?

MR. K. GUELPA: That's an interesting question, and if the honourable member has some statistics that I could have, I would like to see them, because the fact of the Canadian market is we are the only public company in the seed business in Canada. All the other companies, such as Buckerfield's, Alberta Nurseries, Lindenberg, Ontario Seed, Bottinex (phonetic), and I could go on and on, are all private or family-run companies and they do not release any of their statistics.

An interesting question that is posed to our management every year is: What is happening to the competition? We don't all throw our facts into a hat and have a look at the other guy's balance sheet. We're the only balance sheet the competition gets to look at and, therefore, I would not know whether other people have their sales up or down.

Our sales force, in talking with other sales forces, told me that last year was a particularly bad year for all competitors, but you know how some competitors will give you false information.

MR. A. KOVNATS: I thank Mr. Guelpa for his answer. It's a satisfactory answer. I wasn't looking to put you on a spot. I was just trying to be of some assistance, to be honest with you.

Where are the seeds of the McKenzie Seeds obtained? I heard a little earlier about onion sets being obtained from Holland. I am aware that some seeds are obtained from the United States. Are there any other locations where McKenzie Seeds Co. of Brandon get their seeds?

MR. K. GUELPA: Mr. Chairman, our seeds come from world-wide sources. The majority of our seeds will come from the U.S.- from Idaho, California and other states. We buy from Holland, we buy from France and other common-market countries. So there is a side source. Peas are mostly bought in Canada.

MR. A. KOVNATS: I'm trying to establish in my mind the size of the company of McKenzie Seeds and I believe it to be a large competitive company. Would it not be profitable to start up our own seed companies - not seed companies - but our own manufacturing of seeds - is that the word - or growing of seeds, developing of seeds?

I know that Mr. McKenzie at one time had made some arrangements with the University of Brandon, and there were some benefits to the University of Brandon because they wanted to develop a system of setting up seeds through Manitoba. Has this never gone into existence or has it ever been thought of, because I imagine it's quite expensive bringing them in from the United States?

MR. K. GUELPA: Mr. Chairman, that's a question that I asked when I first came into the company - why more seeds were not obtained in Canada - and my background is not horticulture. I was told that it's climate. Canada is not conducive to field-grown seeds. Most of the flowers come from the Lompoc Valley in California and there is no similar growing area in Canada. You cannot compete in a greenhouse on an economic level with field-grown seed. Seeds cannot be manufactured yet. That is the new technology that we're looking into.

Most of the seeds come from fields and, therefore, for McKenzie to get into a venture of getting into the seed growing business, I would be concerned that the company does not have the expertise and we could end up losing a lot of money being in a market where we do not know what's going on and it's not our expertise.

So we have looked at this and said it's best left to the experts in the market, which are mostly world-wide companies who have specialties in just growing seed. What we feel we are is a manufacturer or a bringing together of the seed and the packaging and marketers rather than a basemaker of seeds.

MR. A. KOVNATS: Mr. Chairman, just to extend on that a little bit, I think I know - I'm aware that the radish

seeds come from the United States. The reason that I would believe that some of the other seeds come from California is because of the longer growing season as was just stated by Mr. Guelpa, but seeds such as radish seeds and carrot seeds that are such a short season - and I don't know about the carrot seeds - but I do know that radish seeds are obtained from the United States. Some of the seeds that we can develop in Canada, why wouldn't we develop them in Canada and take the credit of a Canadian company developing Canadian seeds?

MR. K. GUELPA: Mr. Chairman, again, I'm not a horticultural expert in the growing of seeds, but my people lead me to believe that, again, you cannot compete on a worldwide market located in Brandon or in Canada versus the U.S. or European growers. They are in such a scale that, even when you pay the duty and transportation and everything like that, there is a significant financial benefit to the company of buying from these people. If someone in the Brandon area of Manitoba or Canada brought to our attention that they could compete on an equal footing where we would not have to pay a significant premium, I'd be more than happy to talk to him. In the three years I've been with the company, I have not located such a source. That's not to say that source might not exist, but we have never found it.

MR. A. KOVNATS: Something very interesting just came out from Mr. Guelpa, where he made a statement about compete on an equal footing, and I'll make reference to that a little later. How are the seeds tested before they come to Canada? Or in fact are they tested before they come to Canada?

MR. K. GUELPA: Mr. Chairman, all seeds that are bought by McKenzie have to be accompanied with a certificate from the producer which basically certifies their germination rate. We then spot check that in Canada and ensure that the growers are complying with their own accreditation.

MR. A. KOVNATS: I'm sorry, I missed the last part of that answer.

MR. K. GUELPA: Mr. Chairman, I was saying that after the U.S. growers supply us with their certificate guaranteeing the germination rate of the seeds that we are purchasing, we then spot check selectively those seeds in Canada by sending them out for further analysis to make sure the U.S. growers are really giving us the information contained on their certificates.

MR. A. KOVNATS: Yes, thank you very much.

I notice that Agricultural Canada used to do some service testing and I believe that they're phasing out their service testing as of immediately, but Mr. Guelpa has said that they send out their seeds for spot testing. I know that the McKenzie Seeds had their own seed testing laboratory. Was it economically wise to eliminate that seed testing laboratory in as much as it did guarantee a high quality of seeds particularly in germination and gave us the knowledge for when we were selling seeds? I would have believed that those

Tuesday, 5 May, 1987

seeds were probably the best, not just in Brandon, and not just in Canada, but probably the world. Because we were able to test them right in our own laboratory at Brandon. Why was the seed testing operation at Brandon eliminated?

MR. K. GUELPA: Mr. Chairman, in response to the member's question, the seed lab was closed down prior to my coming into the company. But in reading the correspondence, the lab was basically costing us in the area of \$50,000 a year, and we could subcontract this work out into the private sector or the government for in the area of \$5,000 a year. The company at that time thought it was a good economic investment given the condition of the company losing over \$1.2 million to save approximately \$45,000 by closing the lab down, and we did not in any way affect our germination because we still have the certificates from the U.S. growers and we still do our own spot checking. It was clearly an economic decision.

MR. A. KOVNATS: I thank Mr. Guelpa for his answer. It seems logical that if you can save \$45,000 a year that you do so, but I would hope not at the expense of sales and public image. But Mr. Guelpa has given me that assurance that it hasn't cost any sales or public image because of the change. I would imagine that the seed testing is done right in Brandon at this point because it would be convenient and if you had to have a very quick answer that you would be able to within minutes, I would think, have your seeds tested right in Brandon. Can Mr. Guelpa confirm that this is the case?

MR. K. GUELPA: Mr. Chairman, again, we have contracts with various suppliers and from time to time we review those contracts and we satisfy ourselves whether we are getting the necessary service and other amenities required. In this case, I believe - I think my memory serves me correctly - that the seeds are not tested in Brandon, they're tested outside of Brandon, but we are quite satisfied with the service that we are getting.

MR. A. KOVNATS: I'm quite disturbed that the seeds are not tested in Brandon in as much as it's a Brandon company and I've certainly, myself, supported the McKenzie Seeds all of these years and because of what I heard just previous about it . . .

A MEMBER: Not only as a customer, but as a taxpayer . . .

MR. A. KOVNATS: Yes, but it has come about to the credit of the people running McKenzie from as many years back, trying to use as many services out of Brandon, including hiring people from Brandon. I'm quite disturbed that the seeds are not tested by a local company in Brandon. Particularly when I look at the McKenzie Policy Manual and it's not a stolen document, Mr. Minister, it's a document that was given to me, but I assure you, Mr. Minister . . .

MR. CHAIRMAN: The Member for Niakwa is not imputing any motive, is he?

MR. A. KOVNATS: No, I don't think I was.

MR. K. GUELPA: Mr. Chairman, I would like to know where the honourable member did obtain the document. I'm not aware that document is widely circulated.

MR. A. KOVNATS: I think that Mr. Guelpa will just have to take my word for it at this point that it's not a stolen document.

MR. K. GUELPA: I accept your word.

MR. CHAIRMAN: The Chairman accepts your word.

MR. A. KOVNATS: Fair enough. But it is from the McKenzie Policy Manual and part way down . . .

A MEMBER: Isn't that public?

MR. A. KOVNATS: Well, it's really not worth tabling because I think that you can go and get this document in probably 10,000 or 20,000 copies . . .

MR. CHAIRMAN: Point of order being raised by the Minister.

HON. V. SCHROEDER: Mr. Chairman, point of order. If the Opposition has all of the material on McKenzie Seeds for the last year and, if, with all of that information, they've had to take us on a 15-year fiction and fantasy exercise . . .

MR. A. KOVNATS: That has nothing to do with what I'm talking of, Mr. Chairman.

HON. V. SCHROEDER: . . . for a two-hour period. We should be able to adjourn . . .

MR. CHAIRMAN: That's not a point of order. The Member for Niakwa.

MR. A. KOVNATS: Mr. Chairman, as I mentioned before, the Minister's playing a dangerous game. I'm trying to be cooperative, I am supportive of McKenzie Seeds. He's doing everything in his power to convert me from a supporter to somebody who's condemning McKenzie Seeds. He will not be successful because I will be supporting the people in the Province of Manitoba, the people in Brandon who work for McKenzie Seeds.- (Interjection)-

MR. CHAIRMAN: The Member for Niakwa has the floor.

MR. A. KOVNATS: He can try all he wishes and he's not going to be successful. Now, in this McKenzie Policy Manual, it says: All factors being equal, preference of supplier will be (1) Brandon; (2) Manitoba; (3) Canada; (4) Other.

HON. V. SCHROEDER: The world.

MR. A. KOVNATS: I guess "Other" means the world, or the United States or whatever.

I heard Mr. Guelpa deferring about making any decisions concerning favouring a particular company or favouring people from Brandon, because that wasn't the policy of the company. The policy of the company

was to get the best possible deal for McKenzie Seeds and, if anything was going to happen, then the Minister was going to have to interfere and wield his political influence.

Now, company policy, the McKenzie Policy Manual states that preference of supplier will be given: (1) Brandon; (2) Manitoba; (3) Canada; and (4) others, and I agree with it. Why would Mr. Guelpa just pass it off as not being his responsibility and not do business with, in this particular case, a company that does the testing of seeds right in Brandon rather than somewhere else?

MR. K. GUELPA: Mr. Chairman, from time to time, we review our services that are being offered. We look at the various options that we have in terms of quality, service, price and confidentiality. We make decisions based on all of those of whom we are going to do business with.

The honourable member is perhaps suggesting, because there is only one company in Brandon that I am aware of, if the honourable member is suggesting that we give them the business without the benefit of checking into all aspects of the open market, then I could take that under advisement and perhaps award it to a Brandon company without going through an extensive search as to the other things that we are supposed to do.

But the fact is, Mr. Chairman, I don't get involved in awarding who checks our seeds. There are people within the company, there are processes within the company and I'm assuming they are being followed.

MR. A. KOVNATS: I hope that Mr. Guelpa doesn't think I was trying to influence his judgment in making a decision.

On a personal basis, I'm really making the decision on what is recorded in the McKenzie Policy Manual. I believe that the company that is in Brandon has received accreditation from Agriculture Canada, which is the top authority, I believe, and therefore should be in a competitive situation.

Now if that company is going to stick to McKenzie Seeds and say, because I'm from Brandon, I'm going to charge you 10 times or 5 times or more than anybody else, then I think Mr. Guelpa would be absolutely right in saying, go fly a kite. I hope I haven't done anything to upset the Minister. I see that he was trying to get the chairman's attention.

MR. CHAIRMAN: The Honourable Minister.

MR. A. KOVNATS: Well, no, I'm still not finished. I guess maybe I'm going to have to withdraw my words of, "go fly a kite" - go sit on it. He knows my intention, but I just can't believe that with the cooperation and I would think the previous experience and association of this company with McKenzie Seeds, or the people that work with this company, with McKenzie Seeds, would entitle them to at least some preferential hiring treatment. We do it with other groups, and I'm not going to make reference to it, but the government does it with other groups in giving preferential treatment in hiring. I believe that this company, I believe the name of it is Accu-Test Seed Laboratory, and I believe that

this company should be given some preferential treatment in hiring.

Now if their prices are completely out of line, let them go elsewhere, but I don't believe that's the case. I hope that it's not on a personal basis because of their previous association, and this goes back before Mr. Guelpa was there, but he still is the president and chief executive officer. So it is his responsibility for everything that's happened before, and I'm not going back years before. I'm just making reference to it. Why has this company not been given preferential treatment?

HON. V. SCHROEDER: Mr. Chairman, the policy basically is not that different from any other Crown corporation, but let me just give the member an example.

We recently had a question raised along similar lines on Manfor. I checked through it for the individual involved and, as it happened, they were somewhere around - more than 10 percent higher on their price than an Ontario company. So as far as I was concerned, there was no justification because, when you say local preference, what you're really saying, as I understand it, is that all other things being equal we'll go here. If there's something that's not equal, you have to weigh quality, you have to weigh price and so on. That's our policy as an organization.

As I understand it, we currently are in the middle of an agreement that's several years long. There's no way that in the middle of it we're going to cancel it. At the end of it, we have to re-examine it. If we're satisfied that someone from Brandon can do the job competently, confidentially and within the price range, reasonable price range of somebody from outside, then certainly we're prepared to look at it.

MR. A. KOVNATS: I don't mean to prolong it, but the Minister suggested that there was a long-term contract. It would have been very, very foolish to enter into a long-term contract and I don't want to correct the Minister, but I'm not aware of a long-term contract.

Can Mr. Guelpa advise whether a long-term contract is in existence now, particularly - and I think it might be with a Winnipeg company, because that's the only way that it could be somewhat acceptable. Now it's still a Manitoba company and they're second in line. Can I be advised whether there are any long-term arrangements? As a matter of fact, I hope to God that there aren't because I have, in my understanding and assurance, that there are no long-term arrangements made. Can Mr. Guelpa advise as to the type of contract that is in existence right now for the testing of seeds?

MR. K. GUELPA: Mr. Chairman, it's my understanding that we have a two-year contract which expires in '87. Depending on your definition of long term, it expires in '87.

Again, I reiterate, Mr. Chairman, that the decisions within the company are clearly stated in the policy manual based on service, price, quality and confidentiality. We will make the decisions based on who is awarded the job. The member can be assured that nothing in the manual or anything is precluding competition from Brandon in entering.

MR. A. KOVNATS: One final statement because I know that, and I mentioned it once before, we do give

Tuesday, 5 May, 1987

preferential treatment to some groups and rightly so. I believe that, if this Minister would just kind of get a little bit more involved and give some direction so that some preferential treatment can be given to this one seed testing place in Brandon so that there can be a Brandon influence on the testing of seeds, I would appreciate it very much because I think that it's due, it's coming. I just wanted some assurance from the Minister that he would give some preferential treatment to a Brandon company.

Will the Minister give me that assurance that he will be involved?

HON. V. SCHROEDER: Mr. Chairman, I think we've enunciated our overall policies with respect to the local preference. I wouldn't want to go any further than that.

MR. A. KOVNATS: Fair enough. I'll just conclude that I would be very disappointed if it doesn't happen, and I guess next year is another year. I hope that I am in a better mood when I come to speak on this particular subject next year.

Thank you very much, Mr. Chairman.

MR. CHAIRMAN: The Member for Portage.

MR. E. CONNERY: I see that there are still significant leases that McKenzie Seeds enters into. Is it possible to have a copy of the companies and individuals, whatever, that McKenzie's lease from, and the terms of the agreements?

MR. K. GUELPA: Mr. Chairman, yes, we will provide that with the other answers to the questions asked this morning.

MR. C. MANNES: Mr. Chairman, I would like to ask the Minister, with respect to the annual consolidated financial statements for '85 and '86 - and of course we're considering year-end '86 - can the Minister indicate whether any portion of the sales as shown for either of the two years is a result of a recovery from prior years' inventory, particularly the inventory prior to 1983 which had been written down to zero.

MR. K. GUELPA: Mr. Chairman, my vice-president of finance, Mr. Robinson, informs me that, without doing detailed work, it looks like something in the area of \$10,000 might have been recovered from something called netlawn (phonetic) which was written down to zero. We were rather long on it. I think we had a hundred-year supply or something like that.

MR. C. MANNES: That's in the year under consideration. Would the vice-president of finance care to indicate whether or not there was a larger figure attributable to the '85 fiscal year?

MR. K. GUELPA: Mr. Chairman, again my vice-president of finance indicates no. It's probably again in the area of \$10,000 which would have been attributed to any obsolete inventory or any old inventory.

MR. C. MANNES: Mr. Chairman, just to be absolutely certain then, in October '83 when McKenzie financial

statements wrote off inventory which had a cost valuation in excess of \$1 million, most of that inventory has now been sold, I would take it. Virtually all of it has been sold and the total contribution it made, that \$1 million write-off, to the financial statements of '84-'85 and '85-'86 was \$10,000 per year. Am I correct?

MR. CHAIRMAN: Mr. Robinson.

MR. K. ROBINSON: Mr. Chairman, the write down that occurred in the year 1983 was a write down as a result of a policy revision that was made, rather than specifically on individual items. In 1983, we instituted a formalized policy on inventory which placed different criteria for valuation of inventory, and that was the major portion of the write-offs that occurred in 1983. There was certainly at that particular time, because I was a new employee of the company, we did review obsolescence and a portion of that would have been attributable to items that we felt were overstocked and required to be written down to a net realizable value for future years. I can't specifically give you the exact numbers of how much was sold in each year subsequent to that.

MR. C. MANNES: Well, Mr. Chairman, the story is changing now a little bit. In '83, there was a million dollars of inventory written down. I'm trying to determine now whether indeed some significant portion of that was recovered and whether it was reflected as such within the financial statements for the two years afterwards, because quite obviously, Mr. Chairman, indeed if the inventory was written down to zero at one point in time - and I don't care what the criteria is in place - indeed if the physical inventory is in place, in house, or through the various distributors, sitting there and has at one point in time been given no value, and then consequently is sold for some obvious value, then that should be reflected as such within the financial statement. To not do so is to overstate the profitability associated with the year's activities reviewed within the statement.

My question to the member is again, or to the Minister, or to officials of McKenzie Seeds, to what degree was the specific inventory that was written down in '83, what value was realized on its sale subsequently in '84 and '85?

MR. R. KIVES: Basically, the cost of goods for McKenzie Seeds and the seed value is a very small percentage of our total costs. The real cost is in the administration and in running the business. We do not have those figures available but, generally, the recovery would be a very small value as for the actual cost of the packet itself. The real cost is running the business, the salesmen, the advertising, the promotion, and that really isn't where the company would make their profits. The cost of goods run probably in the area of 5 cents to 10 cents a packet, where the administration, running the business, would run 30 cents to 40 cents a package.

MR. K. GUELPA: Mr. Chairman, also to reiterate what our chairman, Mr. Kives, has said, to answer the question specifically, to the best of our knowledge, we do not believe that there is any major impact on the

bottom line performance of McKenzie due to obsolete inventory.

MR. C. MANNES: Did the former Provincial Auditor have any comments to make with respect to this practice or what did happen within this area at some time in the past, Mr. Chairman?

HON. V. SCHROEDER: Well, we're back into the magical mystery tour of the past. It may well be that Mr. Ziprick, in 1983 or 1982 or 1978 or 1977 or whatever, made some statements.- (Interjection)- Well, Mr. Chairman, the Member for Morris is raising an issue dealing with an auditor who has long since retired. We're dealing with this particular year, and I'm not going to say whether he did or he didn't make a statement. I believe he did make a statement but I, quite frankly, don't recall what he said. Does the Member for Morris have it in front of him and is he playing games with us?

MR. C. MANNES: Mr. Chairman, I'm not playing games with anybody. We are considering now our year-end report which says McKenzie Seeds had a net income of \$300,000 for the year '85-86. Beside it is the figure for '84-85 of \$970,000.00. Members, officials of McKenzie Seeds, have said that indeed in their view, the carryforward of inventory and the resale has had no material effect on the bottom line.

Mr. Chairman, I am trying to determine whether indeed the million dollars of inventory that was written down to zero and then subsequently sold at a value that may have been in excess of a million dollars may indeed be the sole reason why McKenzie Seeds is able to, two years following that write down, show the figures they do. Mr. Chairman, I'm just trying to determine what happened to that million dollars of inventory that was written down, nothing more.

MR. K. GUELPA: Mr. Chairman, now that I understand the question a little better, I think you're asking how can we go from \$971,000 in profit to \$303,000; and what was the major impact on that? As I stated in an opening statement, the reason for this dramatic decline is the increase in our return rate.

If I could maybe take the honourable member through a couple of mathematics here, each 1 percent in the increase in our return rate cost the company bottom-line profit approximately \$120,000.00. That's how much we lose in bottom-line profit because we've put all the labour, transportation, seed packaging into these seeds, and when we don't sell them, it's gone; it doesn't materialize again.

Therefore, in 1985, when we made \$971,000, as I stated earlier, we had approximately a 46 percent return rate. When that return rate jumped to 51, that represents a 5 percentage point increase. Five times 120 is close to \$600,000 of bottom-line profit. If you add \$600,000 of bottom-line profit, because of the return rate increase to \$300,000, you get very close to \$971,000.00.

MR. R. KIVES: I don't know what you're really trying to get at, but we're running our business where the returns from this year are also written down. If we didn't

write down our returns from this year, next year we're going to make a profit, but it's going to be in year to year. The only changes are if there's a tremendous change in the amount of inventory the company carries from year to year, but whatever came back from last year is written down this year.

Now you're claiming some inventory that was written down in 1985 or '83, where there had a material effect in '84. If it did, it was very insignificant because in '84 we wrote down the merchandise. So the only time that comes into play - what you're trying to get at - is if we close the doors today and sell all the inventory tomorrow. But as long as we're getting returns on a year-to-year basis, it has relatively little impact.

MR. C. MANNES: Mr. Chairman, I certainly accept Mr. Kives' explanation as long as the practices in place do not vary from year to year. I can see whatever is done one year, if it's done the next, then that represents some similar application of the rules.

My concern was, though, that in 1983, a major change had occurred. There seemed to be a major breakpoint for that company at which time inventories were written down in possibly some different fashion from years previous. So, obviously, Mr. Chairman, - and this is where I disagree with the other official who was trying to take me through some rates of increase - it's all become consolidated, and I don't care if the source of funds is through sales at some different rate or, indeed, if it represents sales of inventory that have been written down to zero for the first time, it still is consolidated.

Just like I say to the Minister, who tries to charge us for saying well, we didn't go out and borrow \$12 million in support of McKenzie Seeds; we took it out of the consolidated fund. Mr. Minister, saying that then, had you not put it towards McKenzie, you could have not had to go out and borrow another \$12 million from MACC. So the net effect is the same.

My point I'm trying to make, Mr. Chairman, is I wanted to know whether any of the write-down in 1983 inventories impacted in a significant fashion on the income and the profitability of McKenzie Seeds the two years previous.

Mr. Kives indicates to me that the inventory procedures, write-down procedures that are in place, that were in place in '84, and that are in place today were the same ones that were in effect in 1983 and, therefore, they will impact on the statements to come in the same way that the 1983 impacted on '84 and '85.

MR. K. ROBINSON: In answering that question, Mr. Chairman, I can assure you that the policy that we established in 1983 has been consistently followed from 1983 to 1986 and will continue to be followed until such time as it becomes an obsolete policy which means that something material has changed. I can also assure you that any write-down that occurs on a year-on-year basis resulting from inventory being overvalued for any reason is recognized in the accounting for that particular year.

MR. C. MANNES: Mr. Chairman, that's my point exactly. The new write-down policy came into effect in 1983. The lags of that, the first beneficiary of that lag

system of write-down are '84 and '85. That's the comment I'm trying to make, and in my view then, it has had some effect on the financial statements as presented.

I was trying to quantify that effect. Mr. Robinson and Mr. Kives led me to believe it's immaterial, insignificant. I have no other choice than to take their word for it. But, Mr. Chairman, other people lead me to believe that it could be significant upwards of \$1 million. That's the point I'm trying to make.

MR. CHAIRMAN: Are we ready to pass the report?
The Honourable Minister.

HON. V. SCHROEDER: We would certainly be delighted to come back on another occasion. The president and chairman are unable to be back other than possibly tonight at eight o'clock. I didn't check with . . . -
(Interjection)-

MR. J. DOWNEY: What were the comments, Mr. Chairman?

HON. J. COWAN: My understanding is that there's a scheduling conflict with the staff that would be in

attendance at the meeting, which would mean that we will not be able to get them back until mid-June. So if that's acceptable, then we'll have the committee rise. If it's not acceptable, I think that the other offer was to try and schedule a meeting quickly, although there may be some difficulty with that, so that we can finish the consideration of the report. It makes no major difference to us. It's just that we want that to be on the record so when it's not called, you can't tell me that you misunderstood.

MR. J. McCRAE: Mr. Chairman, we see no problem with whatever arrangements have to be made. There were a number of undertakings given today with respect to answers to . . .

MR. CHAIRMAN: It's agreed on both sides, agreeable on both sides?

HON. J. COWAN: Yes.

MR. CHAIRMAN: Committee rise.

COMMITTEE ROSE AT: 12:38 p.m.