

**LEGISLATIVE ASSEMBLY OF MANITOBA**  
**THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT**  
**Tuesday, October 24, 1989**

**TIME — 10 a.m.**

**LOCATION — Winnipeg, Manitoba**

**CHAIRMAN — Mr. Helmut Pankratz (La Verendrye)**

**ATTENDANCE - 9 — QUORUM - 6**

*Members of the Committee present:*

Hon. Messr. Downey

Messrs. Angus, Ashton, Burrell, Evans (Fort Garry), Helwer, Maloway, Minenko, Pankratz

**APPEARING:** Mr. Leonard Evans, (Brandon East)

Mr. Ray West, President and CEO, A. E. McKenzie Co. Ltd.

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

Mr. Ted Chiswell, Acting General Manager, Communities Economic Development Fund

**MATTERS UNDER DISCUSSION:**

A. E. McKenzie Co. Ltd.- Annual Report, 1987 and 1988

Communities Economic Development Fund Annual Report, 1987-88

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**Mr. Chairman:** Good morning, everybody. I would like to call the committee to order on Economic Development to consider the 1987-88 Annual Report of Communities Economic Development Fund; and the Auditor's Report and Consolidated Financial Statements of A. E. McKenzie Co. Ltd., as of October 31, 1988 and 1987.

**A. E. MCKENZIE CO. LTD.**

**Mr. Chairman:** The committee had previously met on Tuesday, October 17, and at that meeting the committee had commenced considerations of the A. E. McKenzie Co. report. So at this time I would like to ask the Minister whether he has some remarks to make.

**Hon. James Downey (Minister responsible for the Natural Resources Development Act, A. E. McKenzie Co. Ltd., and CEDF):** Yes, Mr. Chairman, I just want to say that it was my understanding that the committee was about ready to pass the report. However, the Member for Brandon East (Mr. Leonard Evans)—the committee was held over in case he had some questions that he wanted to ask and I see, even though he is not a Member of the committee, he is here this morning as a Member to ask questions, and we are prepared to deal with it.

I have brought back the staff of McKenzie Seeds and also the chairman of the board in case he has some questions to direct to them, so we are prepared to deal with it and pass it, Mr. Chairman.

**Mr. Chairman:** Does the critic have any remarks to make at this time?

\* (1005)

**Mr. Laurie Evans (Fort Garry):** No, I am quite prepared to have it passed over to the Member for Brandon East.

**Mr. Leonard Evans (Brandon East):** I appreciate the opportunity of discussing this, this morning. I do not intend to get into much detail. I have a few basic questions to ask.

First of all, I would say I was very pleased to see that the company is showing an improved net income position and I think that is to the credit of the company, a credit to the board and staff, and I would congratulate them for this.

I wonder, however, if they could just briefly comment on what they believe is the basis for the profit. I know we can look at these numbers and see the costs, the interest rates, the interest costs and the other expenses, but basically what would the staff attribute the success this past year to, what particular factors? What is happening in the market out there?

**Mr. Ray West (President and CEO, A. E. McKenzie Co. Ltd.):** Mr. Chairman, in reply to that, there was an increase in total sales of some \$263,000 for the fiscal year. To give you an idea where those sales, those increased sales came from was basically that the grass seed area had about a \$70,000 sale increase, onions had about \$117,000, and spring and fall bulbs had about \$165,000.00.

The retail stores in Brandon and Edmonton had about a \$155,000 sales increase. There was a sales decrease in uniflex, which was planned, and a sales decrease in packet seeds. Part of the problem that we are facing with our business is a declining market in packet seeds.

The increases in gross profit, which is the sales less the cost of the goods, in the packet seed area was a decrease of about almost \$250,000 in gross profit in packet seeds. That was offset by increases in gross profits of grass of \$74,000, onions of \$65,000, spring and fall bulbs of \$88,000 and mail order of \$164,000.00. Now you notice we did not increase the sales at all in mail order. In fact they went down by \$38,000, but we increased our gross profit, which is the important part, by \$164,000.00.

Also there was a decrease overall in total company operating expenses. This is also in light of the fact that

we have about a quarter of a million dollar increase in operating expenses each year that is inflationary for things like salaries, taxes, telephone costs and things of that nature. In trying to break that down, there was a decrease in the operating expenses in the mail order area of almost \$200,000, and there was an increase in operating expenses in the consumer products division of about \$135,000.00. Overall, as I say, the net result of operating expenses was a decrease of about \$20 thousand, which is quite an achievement and that relates to the productivity of the employee and the dedication of the employees working and trying to keep expenses in line. A combination of increased sales, increased gross profits, from those sales and from refinements in certain programs, for example the mail order area, and holding the line of operating expenses is basically what gave us that increased profitability.

**Mr. Leonard Evans:** I thank Mr. West for that explanation. I was rather disappointed to hear him say that the mail order sales have not increased.

**Mr. West:** The actual sales in the mail order for the fiscal year 1988, the year we are dealing with, the sales did not increase but the profitability from that division increased by some \$350,000, and that is quite significant. The way that was achieved was better gross profit contribution from the sales that we had and also a reduction of operating expenses. Inasmuch as we would have liked to have seen some sales increases in the mail order division, we were concentrating also on refinement for profits in that division and we did achieve that.

\* (1010)

The Member will be interested to know that in the year that is almost finished, that there was quite a significant increase in the mail order sales for the company.

**Mr. Leonard Evans:** There is no criticism in being more efficient in selling or in operating and that is a sound source of profit if you can achieve improved efficiency and improved productivity, that is very good. I looked upon the mail order as one area of continuing upward sales but apparently that was not the case in the past year.

What about this coming year, what do you think, are you optimistic about the coming year and also because the coming year, we are almost finished. When I say the coming year, I mean the coming report because we are dealing with the year October 31, 1988, we are just about finished October 31, 1989.

Is this the way the company expects to be in a profitable position by concentrating as much on cost efficiency and productivity as sales growth? I know you want to do both, obviously, but realistically what do you think is happening? Are you going to be able to show a position based on a continued cost efficiency or is it more going to be relating to the sales increase?

**Mr. West:** Mr. Chairman, for the year ending October 31, 1989, in actual fact we knowingly gave up over a

million dollars in sales in our two retail stores. Those were sales that were not profitable and it was best for the company to give those sales up. Even in light of giving those sales up, we actually came very close to having the same sales, or we think we will come very close to having the same sales in 1989 as we had in 1988. What that means is the part of the company that we want to have sales growth in, like the mail order and the consumer products area and so on, has actually increased its sales somewhere around \$800,000 in the fiscal year ending October 31, 1989. So although the total company sales will be slightly smaller than it was in 1988, the sales that we are recording are sales that we wanted to record and are not sales like, for example, in the retail stores which we gave up because they were not good for us to have and they were not profitable for us to have. It was better for us to give them up.

**Mr. Downey:** Just an additional comment. I know that the Member is asking specifically for the next year which is quite appropriate because the people are here to answer the questions.

I may say that I am quite enthusiastic as well with the recent announcement of McKenzie going into the eight United States states which in fact is projecting to add a considerable amount of revenue to the company without a large capital outlay, but an initiative that I think will enhance job opportunities and enhance the bottom line, and will, by the numbers which are shown by the management and the board of McKenzie Seeds. So I think that the future for McKenzie, particularly as it relates to expanded market opportunities in the United States is something that will augur very well for McKenzie and the Westman area.

**Mr. Leonard Evans:** I thank the Minister for that statement. I had an item I was going to raise in the matter of free trade because there was something in the paper about it and I am glad to hear what the Minister has told us. Just one last question and then I was going to get into the free trade. What about the level of employees now? Approximately how many permanent employees does the company have now and what are the number of seasonal employees?

**Mr. West:** I know when we take everything and convert it to equivalent full-time jobs, we have about 160. Now I do not know what the peak period is of staff that is not on temporary staff and the number of total full-time permanent staff, but maybe Ken Robinson does.

\* (1015)

**Mr. Ken Robinson (Vice-President of Finance, A. E. McKenzie Co. Ltd.):** Mr. Chairman, the temporary employees that we have that do not work the full year, we have approximately 100 full-time equivalents in the 160 or 165 number. Therefore, approximately 65 or 60 are temporary, full-time equivalent jobs.

**Mr. Leonard Evans:** Specifically then, what is the total payroll? I do not know whether it is included in here or not, but approximately what is the total payroll?

**Mr. West:** The total annual payroll for the company is approximately \$3.5 million.

**Mr. Leonard Evans:** Yes, well obviously a very significant payroll for the City of Brandon and contributing very significantly to the local economy. I note that particularly because, as is in the past and through today, if the Minister's statement about the future holds true about increased sales, the company really relies on export revenue and a lot of people do not realize this. Both in Brandon and in Manitoba as a whole the company is essentially an export company and the revenues are brought into this province and we are all better off because of that.

Just getting on then to the free trade question, I was going to ask specifically, what has happened under the Free Trade Agreement that allows the company to sell now, I mean has something happened? I do not remember the details. Could not the company have sold before or was there a prohibition of selling packaged seeds in Minnesota, North Dakota or whatever?

**Mr. West:** Mr. Chairman, basically there are three things that have happened. The first, probably the most meaningful, is through the Free Trade Agreement there will be a standardization of the trading regulations between the two countries over the ten-year period. Before trading had to be done on the basis of the regulations as established by fifty states and one Canada Seed Act so that the regulations were not too standardized and it made it more difficult to trade.

The second thing is that there are some duties and some tariffs involved. They are not what I would call significant but they are there and of course those tariffs and duties will be relaxed and done away with during the next decade of time, over a 10-year span.

Probably the thing that is not something that is not outlined or defined in the trade agreement, it is an attitude thing. For years our company just thought that we are too small to play with the big boys next door and I think with the advent of free trade that this has been a change in the attitude that the company looks at and the employees look at. We are saying we can trade with these people, we can deal with these people, we are as good as they are, so why can we not trade in their market? We have a good product, we have a good service, we have good people, and we think we can deal in that marketplace.

**Mr. Leonard Evans:** So attitudinal change seems to be the big factor because these other regulations and duties that maybe even are not taking place immediately. It will take about a decade before they are fully effective.

**Mr. West:** I guess the other thing is that now that this attention is focused on this trading back and forth is that we felt that there is going to be more people looking at this thing on both sides of the border and we wanted to be the first to address it if we felt that we could address it in an economical and viable way.

When we look at the pro forma and the work that is being done, the research that has been done into

the U.S. marketplace, it looks very positive for the company and we expect that this launch will be successful. Certainly on paper it is successful. What we have to do now is be able to go in there and develop that.

\* (1020)

**Mr. Leonard Evans:** Just how are you going to bring this about, Mr. Chairman, I ask through you to Mr. West? Are you going to have additional sales staff in that area or do you have certain specific contacts with distributors there? Just how do you expect to bring this about?

**Mr. West:** The Member, because he has such a good understanding of our company, realizes that there are two marketing divisions within the company. The two marketing divisions are a direct marketing division called McFayden and our wholesale division called McKenzie.

The first division that will be launching into the United States will be McFayden and it is a direct marketing mail order division. It will be selling products or offering products into eight states. Those states are North and South Dakota, Nebraska, Iowa, Wisconsin, Minnesota, Wyoming, and Montana. The population of those states is some 17 million people. That 17 million people is representative of the same number of people in Canada to which McFayden now markets its product, because McFayden does not offer any product at all into the Province of Quebec. We only have an English catalogue and we only offer it in English-speaking Canada.

The way that the mailing lists will be developed will be basically everything we learned when we developed our mailing lists in Canada. We are going back and we are studying everything that was ever successful for us and things that were not successful for us and we are going to be using the things that were successful in developing a mailing list in the United States to which we can send our catalogues. Because we are in a competitive nature, Mr. Chairman, I would rather not disclose how many catalogues we will be sending into the United States, but it is significant. It is not an insignificant quantity. We think that our catalogue, when we study the competition against whom we are going to be marketing, that we have as good an opportunity to sell our product in the United States as they do. We think we can compete with these people and compete successfully.

The other area that the company will be addressing will be in the same eight states, the marketing of some of its specialty seed packets—not the regular beets and carrots and radishes and lettuces, but some of the special seed packs that we have developed now with some of our seed packs like our Royal Floral line and our Thompson and Morgan line and lines of that nature will be lines of a special nature that are now not being covered in the United States.

These products will be offered into the states to retail accounts, accounts that will have them on display to sell to the consumer. A lot of this activity will be done through telemarketing out of Brandon. We already have

this started. We have a list of accounts that we are marketing to and we also have established some agents in the United States, in the State of North Dakota right now, one agent that will assist us also in the selling of these products to other retailers.

**Mr. Leonard Evans:** I am very interested in what Mr. West tells the committee in terms of—so as I understand it, the biggest thrust is simply in the mail order division where you will attempt, through acquiring certain lists of potential customers, to sell merchandise and seeds through the catalogue.

On the other hand, on the retail sales side you are going to make contacts with whomever in those states. I wanted to ask Mr. West whether the intention was to try to deal with some larger retail chains as opposed to small individual corner store types. I ask that question because, as he knows, over the years a great deal of cost is accrued to the company in trying to deal with very small customers.

In the last analysis, I understand McKenzie will be far better off just to have large chain accounts more or less, because they are much cheaper to service, and this is where the bulk of the sales tends to be anyway.

\* (1025)

So are you looking to work with chains in the United States or—(interjection)—I do not care whether they are multinational or national or state-wide, I am looking at the profitability for McKenzie Seeds.

**Mr. West:** The launch for the specialty packets will be dealt with both national chains and regional chains on some of the product lines. For example, we have an oriental line that we are dealing now with a major chain in the United States. Although we have no order yet, we are having discussions with them.

Then also the specialty packets are packets that do well in special kinds of outlets, like garden centres and nurseries. Garden centres and nurseries are becoming a very important part of our program to whom we sell our seeds and related products. That is where we are really concentrating on, the special types of outlets like garden centres and nurseries that have large sales, and the people that go into those accounts are generally people who are really interested in some of the things that are different and new in gardening. That is what these specialty packets are all about.

**Mr. Leonard Evans:** Mr. West referred to telemarketing and so on, which brings me to the question: are there any additional staff being hired in order to engage in this extension of McKenzie Seeds into the United States?

**Mr. West:** Mr. Chairman, I think the workup we did on this indicated that we would have about the equivalent of about four full-time jobs in Brandon and two equivalent full-time jobs in the United States. Now obviously, those equivalent full-time jobs are not full-time situations but part-time situations which collectively make up that amount of jobs.

**Mr. Leonard Evans:** Mr. West indicated that the market they were looking at contained approximately 17 million

people. Could he indicate what he estimates to be the potential sales in the first year of this? I do not know what you consider to be the first year. I do not know exactly when you have started. Obviously, you have done a lot of research and planning. I do not know when the operational part comes into play. In the first year of operations in this market is there any estimate of what the potential sales may be?

**Mr. West:** The first year actually starts in a couple of weeks, three or four weeks. There will be some prospecting flyer material sent out. We are going to do some television advertising in the state of North Dakota, and obviously we are running mailing lists and things of that nature that the Member alluded to.

The first year we expect our sales to be in the neighbourhood of some \$700,000 for the expansion into the U.S. market for our mail order division, and I think about \$60,000 for the consumer products division.

**Mr. Leonard Evans:** Well, putting that into perspective, in 1988 your total sales were just over \$14 million. So what are you looking at, this is about five percent of your total. I would gather that the bulk of the sales are still in Ontario and Quebec. Is that the most concentrated portion of your national market?

**Mr. West:** Mr. Chairman, I am sure that Mr. Robinson could give a better breakdown of the regional sales than I could, so rather than me guess I would ask him to do it.

**Mr. Robinson:** Mr. Chairman, if you consider both the mail order and the Consumer Products Division, I would estimate that the sales are pretty well split one-third in western Canada, one-third in Ontario, and one-third in Quebec and the Maritimes. That would be a very rough estimate for you.

\* (1030)

**Mr. Leonard Evans:** Well, at any rate, Mr. Chairman, we will look with interest to see how this proceeds and I will wish the company well. I hope they can sell additional into that market and that it is successful, but I do note that it is, as Mr. West had indicated to us, essentially an attitudinal thing and then sort of becoming aware, well there is an opportunity to sell down in the midwestern States and let us go after it.

Another question I had is with regard to the value-added in Manitoba and particularly in Brandon. I appreciate the fact that a great deal of the printing has to be done out-of-province because of the nature of it, the very specialized nature of it. A lot of the packages, therefore, and the packaging material in the past used to be prepared and processed and purchased out of Ontario, or outside of Manitoba at least. Have there been any improvements made in regard to a value-added within Manitoba, whether the purchase of seeds from Manitoba like onion bulbs or the purchase of packaging materials?

**Mr. Downey:** Just before we get into that specific detail I want to recognize the point the Member for Brandon

East (Mr. Leonard Evans) did make about the attitudinal approach to the Free Trade Agreement and his recognition of it. I think that is something we are all pleased with. However, let us not underestimate the other two points that were raised as far as it deals with the planning and the longer-term relief of tariffs as it relates to the marketing in the United States and also the standardization of regulations that is also a part of it—not totally, but part of it.

Let me say as well, and I think this is important. I am not trying to provoke debate with the Member for Brandon East over this, but I do think that what I am seeing taking place is that with the initiative that has been taken by the board and by the management and the staff of McKenzie Seeds to enhance their business opportunities outside of Manitoba into the United States market, that the very exposure of the company on that basis, on that thrust, certainly will not hurt us in the Canadian picture, and give us more visibility. The simple fact that McKenzie is now doing TV advertising in some states of the U.S. I think will tremendously enhance the market opportunities. I think the TV advertising has never been carried out by the company before because of the consideration for their other line of business in Canada.

So with the investment in television advertising, with the introduction into the market of some 17 million people, I think that there is a tremendous opportunity there for them. I appreciate the positive attitude which the Member for Brandon East has brought to the committee as it relates to this discussion.

**Mr. Leonard Evans:** Yes, I would thank the Minister for that information. Well just very specifically then on the duties because I do not have any information on this, Mr. West did say that some duties would be relieved over 10 years. What is the duty now presently on a package of seeds or using any other example he would like to use to give us an idea of the degree of tariff protection that exists at the present time in the United States.

**Mr. West:** Mr. Chairman, the duties vary all over the place by product line and even within a product like seeds, for example. The duties are not standard on the various types of seeds. Carrots would have a duty rate different than corn and that would be different from beets and so on. So they are all over the place. The duties on hard goods are more significant and the company is still selling a good amount of hard goods materials, hard goods meaning garden supplies and things of that nature, gardening supplies, garden helpers. Also some of this material is purchased from the United States and we can arrange to have duty drawbacks on that material. Then it is sold back into the United States. We are arranging to do that. Our customs people are working on that aspect.

To answer your question, I would not even want to hazard a guess as to what the overall weighted mix would be. Maybe Mr. Robinson would like to. If I had to guess—obviously the weighted effect of it would have a big bearing. If you did all hard goods it would be probably 10, 15 points, but my guess is the weighted effect might be five to seven points, percentage points. That is a guess.

**Mr. Leonard Evans:** I ask that because I would have thought that there had to be some research into this area. If you are going to make an estimate of your future sales potential, surely you would have to have some idea of the reduction of the tariff and what implication.

My impression is that, while it does not hurt to have the duties relieved, it is going to be over 10 years and it is not going to be that—it does not hurt, but it is not that significant. I think what Mr. West said in the first place, the real question is the attitude and the looking at a potential market that maybe was not considered as fully as it should have been in the past.

Anyway, I am not trying to be critical, I am simply trying to find out because I had no idea whether the duty was 50 percent, 60 percent, 70 percent or 2 percent or 5 percent. I had no idea what that is. You must have looked at it to some degree but what you say, Mr. West, as I understand it, it is so mixed you cannot weight it. If you could weight it then you could come up with some sort of a weighted average, but it is hard. You will know maybe better in a year or two, and we will be glad to ask some questions next year on this to see how things are going.

**An Honourable Member:** Be pleased to be here to answer them.

**Mr. West:** Mr. Chairman, one other thing that does help the company considerably and it is certainly taken into our performance and our research into this area is that it is advantageous for us to sell into the United States because of the value of the Canadian dollar. We are selling and taking American dollars for same sort of sales so it would be taking Canadian dollars for in Canada.

**Mr. Leonard Evans:** Mr. Chairman, on that basis then I am sure Mr. West does not want to see the Canadian dollar appreciate in value, unlike many tourists who want to go to Florida or California or someplace for the winter or whatever they do, Arizona.

I have another area of questioning. I will not be very much longer, just a couple of more questions. I notice that it is Arthur Andersen & Co. who are the auditors and I was wondering, why was this switched from the Provincial Auditor? As I understand it, Mr. Chairman, was not the Provincial Auditor the auditor a couple of years back?

**Mr. Downey:** Mr. Chairman, I do not believe there is, but I will let Mr. Robinson or Mr. West respond to that. I think it has been Mr. Andersen for some several years.

**Mr. Robinson:** Mr. Chairman, in 1982-83 the audit firm was a chartered accountant firm out of Brandon. In 1983 it changed to Dunwoody & Company out of Brandon. In 1984 it changed to Arthur Andersen & Co. out of Winnipeg.

The Provincial Auditor's role has been and continues to be one of coming in annually in most instances and performing an audit overview on the company, and that continues to take place from the Provincial Auditor's office in Winnipeg.



**Mr. Leonard Evans:** Mr. Chairman, I wonder if I could ask why was it changed then from Dunwoody, which had an office in Brandon, to Arthur Andersen, which has an office in Winnipeg. It is beside the point.

**Mr. Downey:** I want to let the answer be given by the staff, but I thought the Member for Brandon East was the Minister at that time. Maybe he was not.

**Mr. Leonard Evans:** I do not think so, what year was—I would ask specifically to the staff what year was Arthur Andersen brought in?

\* (1040)

**Mr. Robinson:** Mr. Chairman, Arthur Andersen's first audit year was October 31, 1984, so they would have been assumed auditors in 1984.

**Mr. Leonard Evans:** At any rate the Provincial Auditor still has an overview role that his staff plays in this.

**Mr. Robinson:** Yes, annually the Provincial Auditor makes a visit to the company and spends up to four or five days doing an overview.

**Mr. Leonard Evans:** I personally think it is a good idea to change auditors every few years. I think it is a very good idea. Even though it is a good—any company may be good with good people. I just think it is good practice after so many years, four, five, six years, to change. I think for this—it is just a good executive move to move bank managers around from time to time. In the area of auditing it is a good idea.

Well, Mr. Chairman, obviously the company has done well and hopefully will continue to do well and that is a credit to everyone involved. I would like to ask this question, perhaps I should ask it of the Minister, because I know he has stated a particular view in the past, but I would like to ask him specifically whether the Government has received any enquiries in the last year to purchase this company.

**Mr. Downey:** Mr. Chairman, let me say that there have been some indirect approaches, but nothing I would take of a serious nature to be a direct purchase of the company. I have made this statement that the company is not for sale. If there were discussions to take place in that regard, I would like to see the employees be part of any discussions as it related to that. The direct question is there may be some overtures but no one came forward as I would expect with money in their hand to purchase the company.

**Mr. Evans:** I thank the Minister for that. In other words there has been no concrete, firm offer made to purchase the company, and at the same time, the Minister says, it is still the Government's policy not to sell the company but to retain it at its status quo position, which I am very pleased to hear, and I agree. That is something I can agree with the Minister and this Government on, that it is in the interest, in my view, of the provincial economy, and particularly the Brandon economy, that it continue to be a publically owned operation.

I am also pleased to note that as a publically owned operation it is doing a good job. Again I want to commend the staff, the board, and everyone involved in this. It does show that you can operate as a publically owned company if you want to. I know there are some people who ideologically feel that anything that is run by a Government will be a failure and a flop. I think, Mr. Chairman, I agree with the Minister this is an exception. It is playing a key role in our economy and we wish it well. We can hope it will continue to play this role, providing jobs. A \$3.5 million payroll in the City of Brandon is very significant for the Province of Manitoba, never mind just the City of Brandon. It is doing that by earning revenues based on exports essentially outside of the province. I would dare say 85 percent to 90 percent of the revenues, if my memory serves me correctly, comes from outside sales, outside of Manitoba, and that is good. We need more companies that will sell outside of our province and bring revenues in.

**Mr. Downey:** Mr. Chairman, I know the Member may have another question or two. Just let me conclude my remarks by saying No. 1, I believe that what we are seeing here is an attitude which is coming not only from the board, but from the management and staff, that it is their company, they are proud of it and it is seeing some opportunities in the future for enhancement.

I know that McKenzie's are actively working on increasing the job opportunities in Brandon through other activities as it relates to marketing of seed, and there are other companies that are interested in doing business with McKenzie's which would in fact enhance job opportunities. As that develops, I will be making public announcements as it relates to McKenzie Seeds.

Let me say as well that I am pleased to announce to committee that McKenzie's, later on today, the chairman of the board will be presenting to the Minister of Finance (Mr. Manness) the final payment of an operating loan which was taken out several years ago, and the conclusion of that loan, the final payment of principal and interest, will take place to the Minister of Finance this afternoon. So they have shown that they are able to pay back funds to the province, and I am pleased to be the Minister responsible when they are doing it.

**Mr. Leonard Evans:** That is good news. I am very pleased, and again I repeat what I said a minute ago. It shows you that a publicly-owned company can be successful if it has good people, and I know we have good people in this case and dedicated. The staff are dedicated, and having known a lot of them over many years, I know they are very loyal staff. If I can say anything about the staff at McKenzie Seeds, they are very loyal and they appreciate that they have to put their shoulder to the proverbial wheel to make it successful.

I am very delighted with what the Minister has said. That is good. That is very good. We look forward to more good news, but I particularly am pleased with the statement that the Government's position is that the company is not for-sale and it will carry on as a

publicly-owned company operating in the City of Brandon.

We will not go into all the reasons why because we have done that many a time in the past. I do not know whether the Liberal Members of the committee understand the intricacies of the issue, but the fact is I think we have something that is an asset to the economy of Brandon and to Manitoba and let us keep it that way. Thank you very much.

**Mr. Chairman:** Pass.

**Mr. Laurie Evans:** I just wanted to make a very brief comment. First of all, I regret the fact that I was not able to be in attendance on Tuesday last when the majority of the questioning took place, but I certainly want to congratulate the company on the progress that it has made this year, and I think most of the questions that were asked last year that enlightened me on the operation of the committee.

I certainly want to express my appreciation to Mr. West on the couple of visits I have made to McKenzie Seeds. Certainly it gave me the opportunity to become better acquainted with it.

There are just a couple of very brief areas I would like to ask a couple of questions on and that relates primarily to the workforce and you have indicated there is the equivalent of about 100 FTEs. I assume the workforce are part of a collective bargaining unit and negotiate salaries. Is that correct?

**Mr. West:** Mr. Chairman, we have union staff in our plant, and we have part of our office, with the exception of managers, are unionized, and the food and commercial workers are the bargaining agent for those employees in both instances.

**Mr. Laurie Evans:** The rough calculation is that the average salary would be about \$22,000 a year based on—I guess that is the ballpark figure.

The other comment I wanted to make, and a little clarification of, is the pension fund. Now in your statement here you indicate that it is a fully funded pension fund. Do I infer from that there is contribution by the employee and the company, and that is somehow or other invested so that when a person retires it is not a drain on the annual operating expense of the company?

\* (1050)

**Mr. Robinson:** Mr. Chairman, the company has two pension plans. The plan for the non-union employees is a participating plan between the company and the employee and is totally funded at this particular time, meaning that there are no unfunded liabilities existing in that particular plan. The other plan is a total contributory plan by the company only and that is for all of the union employees.

**Mr. Leonard Evans:** Did I interpret that correctly then that the part-time employees are in fact part of the pension plan? In other words, are they permanent part-time employees as opposed to being casual employees?

**Mr. Robinson:** Mr. Chairman, both part-time and full-time union employees participate in the pension plan that is provided through the Manitoba Food and Commercial Workers.

**Mr. Leonard Evans:** Can you indicate what level of payment is made? Is it 6 percent with equal amount from the company, or just what is the arrangement on this?

**Mr. Robinson:** Mr. Chairman, as I indicated there are two separate and distinct pension plans. The pension plan that the non-union employees have is a 5 percent contribution plan on behalf of the employees and the company at the present time at least matches those contributions. The pension plan that is provided through the Manitoba Food and Commercial Workers, I am not exactly sure what the calculation respective of the 5 percent I indicated would be for that plan. It is based on a contribution per hour worked. I believe, and I would be guessing, it is about 60 cents an hour that is contributed.

**Mr. Leonard Evans:** The reason I am pursuing this, and the Minister may want to comment, I believe McKenzie Seeds may be somewhat unique as far as Crown corporations are concerned in that their pension plan, as I understand, is fully funded, whereas most of the others the pension is an annual operating cost against the Government Treasury.

**Mr. Downey:** Mr. Chairman, the staff or management can respond.

**Mr. Robinson:** That would be a correct statement. The cost of the pension plan, any cost associated with any of the plans that we have, are fully funded by the company in all respects.

**Mr. Chairman:** Mr. Evans, Fort Garry, last question?

**Mr. Leonard Evans:** Yes, it is the last question. Can you indicate to me what number of employees are currently on pension through McKenzie Seeds?

**Mr. Robinson:** Mr. Chairman, I will estimate this number at about 20 to 25 employees who have retired from McKenzie and are continuing on the company's pension plan.

**Mr. Leonard Evans:** One final supplementary last question is, on the basis of that pension plan, do you have at your fingertips the formula that is utilized in calculating the pension? In other words, if a person is, and I am just using this average figure of \$22,000 and has worked for the company for say 30 years, what would be the approximate pension benefit that type of employee could anticipate?

**Mr. Robinson:** Mr. Chairman, the pension plan for non-union employees, and that is the one I will speak to, is a 1.75 percent benefit per year which would mean approximately at retirement after 35 years of service with the company, the employee would end up with a pension plan equal to 61 or 62 percent of the final five year average earning.

**Mr. John Angus (St. Norbert):** Is it indexed, the pension?

**Mr. Robinson:** Our pension plan is not indexed.

**Mr. Chairman:** Any more questions? If not, shall the Auditor's Report and Consolidated Financial Statements of A. E. McKenzie Co. Ltd. for 1988-87.

**Mr. Angus:** I would like to ask, through you, Mr. Chairperson, to the board to consider the indexing of pension plans so that they can answer that question fully next time, next year. I do not suggest that we impose it upon them, but in this day and age of rapid escalation and cost of living expenses, you have individuals who are trapped with diminishing returns and I just do not think it is fair.

So I very much respect that the board would seriously consider indexing the pensions and be able to report next year at this time on the ramifications of that.

**Mr. West:** Mr. Chairman, the company does have a pension committee comprised of all segments of the company and Mr. Robinson is one of the members on this committee. We look at all aspects of our pension plan at least two or three times a year and how our investments are performing and things of that nature. We are always looking for ways in which we can improve the pension benefits for our employees.

One thing that we always struggle with is that when you improve benefits, it has a cost, and sometimes a significant cost. For example, we have never looked at indexing, but I would imagine that would be a pretty significant cost. Certainly we will take into consideration, the pension committee will, when it deals with this and makes recommendations to our board of directors, as to how we should change this along with how it can be funded. So we will take that into consideration at our pension meeting.

**Mr. Angus:** Mr. Chairperson, I accept that. I consider it a cost of doing business, and the protection of those people who have worked those many years to help get where you are is something that I think should be seriously considered. I will accept that Mr. West has undertaken to take it to the board.

**Mr. Leonard Evans:** On this item I wonder if Mr. West can tell us whether the union has ever asked for an indexing of the pension in the collective bargaining that goes on from time to time, year after year, or every other year.

**Mr. West:** I think I had better let Mr. Robinson answer that question, because he is more familiar with the pension fund.

**Mr. Robinson:** Mr. Chairman, I served on the negotiating team for the company in the bargaining process, and to my knowledge that subject has never become an issue and has not been dealt with.

**Mr. Chairman:** Any more questions? If not, shall the Auditor's Report and Consolidated Financial Statement of A. E. McKenzie Co. Ltd. for 1988 and 1987 be passed—pass.

The report is accordingly passed.

## COMMUNITIES ECONOMIC DEVELOPMENT FUND

**Mr. Chairman:** Now we have the Communities Economic Development Fund Annual Report 1987-88. Shall the annual report pass—Mr. Angus.

**Mr. John Angus (St. Norbert):** I will relinquish the floor to Mr. Minenko.

**Mr. Chairman:** Mr. Angus, would you please repeat?

**Mr. Angus:** Yes, I believe that Mr. Minenko wishes to declare a potential conflict of interest of the committee and wishes to excuse himself from these proceedings and have it so recorded in the minutes, Mr. Chairperson.

**Mr. Mark Minenko (Seven Oaks):** Thank you, Mr. Chair. I wish to advise the committee that I may have a conflict of interest with respect to consideration of the Annual Report of the CEDF in that the law firm in which I am an associate may be representing mutual clients on various matters. I wish to advise the committee of that and as a result withdraw from the continuing deliberations of this committee on this annual report.

**Mr. Chairman:** Very good, Mr. Minenko. I would like to ask the Minister whether he has some opening remarks to make at this time.

**Hon. James Downey (Minister responsible for the Natural Resources Development Act, A. E. McKenzie Co. Ltd., and CEDF):** Mr. Chairman, I just thank the Member for his comments and just let me say that we, since the past review of the Communities Economic Development Fund, have now in place an Acting General Manager, Mr. Ted Chiswell.

Due to a loss of a family member, we have an individual, Mr. Musgrove, unable to be with us. So I think that Mr. Chiswell, along with myself, should be able to answer the majority of questions. If not, we could take them under advisement for future activities.

\* (1100)

In my opening comments let me say, Mr. Chairman, I am pleased with the activities that have taken place in the Communities Economic Development Fund as it relates to following up on the activities of the Auditor's Report. In reading some of the last year's Hansards I am pleased that we proceeded with the Auditor's activities.

I am sure each Member of the committee has had an opportunity to read the Auditor's Report, particularly the Member for Thompson (Mr. Ashton) who last year had some specific questions dealing with it. I would hope he is now satisfied that there was need to further advance work by the Provincial Auditor, something that he was not overly comfortable with I guess last year.

Mr. Chairman, I was just reviewing Hansard, and I say it seriously. I am also pleased with the attitude of the board as it relates to the activities of the Communities Economic Development Fund. Let me say



at this time, publicly, how much I appreciated the opportunity to work with Barbara Bruce who, due to other activities and work commitment, saw fit to resign from the Board of Directors. I want to thank her publicly for her commitment to the board and to the work with the Communities Economic Development Fund, and to acknowledge the rest of the board membership for their work and endeavours to make sure that the Communities Economic Development Fund operates in the interests of the people of Manitoba.

I think we might as well enter into the questions that the Members may have and that will be all I have to say at this particular time.

**Mr. Angus:** Could the Minister give us just a brief overview of the intended goals and aspirations of this Crown corporation, with reporting relationships as they report to the super Crown corporation board and specifically identify the perceived difference between this and the NDP Jobs Fund?

**Mr. Downey:** Yes, Mr. Chairman, I can go back over the Act for the Member. The Communities Economic Development Fund does operate under an Act of the Manitoba Legislature, which was established I believe in 1971 with the purposes and objectives—and I will just go from memory—but I believe the purposes and objectives of the Communities Economic Fund—and I can state that the Communities Economic Development Fund was established as a Crown corporation to encourage the optimum economic development of remote and isolated communities within the Province of Manitoba. The fund places emphasis upon the economic development of northern Manitoba. However, applicants from other communities within the province, with the exception of larger centres, are also considered.

To carry out this objective it is not practical to pass on all of the fund's costs to the users of its services. As a result, the fund depends on a subsidy from the Province of Manitoba. In previous years the Manitoba Development Corporation provided a subsidy to cover the fund's excessive expenditures over revenue for the year ended March 31, 1988. The province has provided this subsidy.

The basic thrust of the Economic Development Fund is to provide loans to those individuals who are unable to get financing from banking corporations, particularly in remote and northern communities. It is clearly understood that—the record, I should say, of the past has been something like a 20 percent write-off of loans that have been encouraged by the province, and the board has made an assessment of this and are trying to work that percentage down. It is between the board and management that operate the corporation, and it reports to the Minister when it comes to loans of greater than, I believe it is \$150,000, for ministerial and Cabinet approval.

**Mr. Angus:** How does it differ from the Jobs Fund?

**Mr. Downey:** Specifically, Mr. Chairman, I guess I leave that to the Member to determine how it differs. I think

the Jobs Fund had a different set of criteria as it related to job activities and community projects throughout Manitoba. This specifically relates to a commercial operation of lending of funds to people who cannot get funds from the traditional banking organizations to carry out commercial businesses.

**Mr. Angus:** Mr. Chairman, as I understand this, and just looking at the amounts—and correct me if I am wrong—there is about \$3.5 million administered last year which created 210 jobs. I am going from memory. Perhaps the—I am sorry, sir, I did not get your name.

**Mr. Downey:** Mr. Chiswell, Acting General Manager.

**Mr. Angus:** Perhaps the acting general manager would just give us the criteria for applications, the specific emphasis, Mr. Chiswell, on the fact that, if I remember again correctly I could not find the specifics, there were only 76 applications from last year. It seems to me that 76 applications to consider—perhaps if you would just give us that ratio of how you solicit this, how you make people aware of it and the number of applications you review, what the procedure is for reviewing them, things like that.

**Mr. Ted Chiswell (Acting General Manager, Communities Economic Development Fund):** Mr. Chairman, we do not really solicit applications, we have taken a reactive approach as opposed to a pro-active approach. Our normal ratio is for every 10 inquiries we make one loan. So for the number of loans that we have made last year we would have had approximately nine other inquiries. Our criteria are established by our Act which, as the Minister has pointed out, is basically to provide funding where funding is not available in remote and isolated communities to people who normally would not be able to attract that kind of financing.

**Mr. Angus:** The board meets on a regular basis to review applications, or is it approved simply by the general management of the corporation?

**Mr. Chiswell:** Mr. Chairman, the board approves all applications between \$25,000 and \$150,000.00. Over \$150,000, it is recommended to the Minister for his approval. Under \$25,000 can be approved by the general manager.

**Mr. Angus:** I noticed a difference in interest rates that were being charged to loans. Could you perhaps just explain the reasoning between that?

**Mr. Chiswell:** Mr. Chairman, the interest rate varies with the 5-year borrowing rate established by the Province of Manitoba, and the board meets regularly each month to approve those loans. The interest rate is established each month.

**Mr. Angus:** Before I get into some specific questions on the breakdown of administrative expenses and things of that nature, I am curious as to, if you take a reactive position, Mr. Chiswell, how you bring fairness of representation to the submissions? How do people find

out? It seems to me that it is almost an "if you know somebody who knows somebody" type of a situation, which I do not think is fair.

So I am concerned about that aspect of making the general public aware that the funds are available and can be had if you meet certain criteria.

**Mr. Downey:** Mr. Chairman, I guess I may try and answer the Member. I think for those people who have traditionally lived in northern and remote communities, and isolated and remote communities, they are aware of the Communities Economic Development Fund because that is where it has traditionally done business.

There was an office in Thompson, for example, approximately a year and a half ago, two years ago. The officer was taken out of Thompson. It is our intention to try to have more visibility and accessibility to those communities to add to the fairness and to make sure that people have access to it.

I guess we are not in the advertising or up-front commercial loan business as are the banking industry. I guess if one were to ask the question of a lot of northern businesspeople, they are in fact aware of it, but not because they read it in the sign that there is a Communities Economic Development Fund office in a particular building. I think there are some things that we can do that can support northern development, and this is one of the tools that I anticipate using to do that with.

\* (1110)

**Mr. Angus:** Mr. Chairman, just through you to the Minister. How do you intend to take a pro-active northern position by removing the development officer from Thompson, as an example?

**Mr. Downey:** Mr. Chairman, let me assure that that removal took place prior to our coming into office, that that was the previous administration that had made that decision and taken that action. It is our intention to reverse that in fact to give northern access to more than just Thompson but to other northern communities on a regional basis.

I have also been informed by Mr. Chiswell that there are some northern newspaper ads or information that is available through a Communities Economic Development Fund. Let me say as well that it is my understanding that there has been an annual program carried out on an educational basis with some students from the North and some of the communities that have come in and have carried on—CEDF has provided a service informing them of what they in fact are doing, and assistance in an educational way as well.

**Mr. Angus:** Does the Communities Economic Development Fund report or work under the Crown Corporation's Council.

**Mr. Downey:** Yes.

**Mr. Steve Ashton (Thompson):** I have a number of questions for the Minister. First of all, I suggest he read

last year's Hansard, and the Minister is a great one for attempting to rewrite history, but if he read last year's Hansard in terms of the Auditor's Report, he would have found that I asked a whole series of questions on the Auditor's Report, and indicated at the time it was difficult for an Opposition Critic not being given any information either in the House or directly by the Minister in terms of the Auditor's Report to do anything other than ask questions which I did.

At that point in time, the Minister refused to answer most of the questions because he felt that was not appropriate at the time. That was his prerogative, but I really find the Minister's side comments sometimes to be really insulting to the intelligence of the Members of this committee, and I would hope the Minister would deal with the questions raised and if he wants to rewrite history, let him rewrite history in terms of his comments, and my comments are on the record from last year, and I do not think his comments were appropriate.

What I want to do is ask the Minister in terms of the Auditor's Report to get some indication of the follow-up to the Auditor's Report—the special Auditor's Report I am referring here to rather than the Annual Auditor's Report which we did discuss last year—I understand an advisory committee has been struck. I was wondering if the Minister could indicate first, the composition of that committee, and second, what progress it has made, what recommendations if any it has made?

**Mr. Downey:** Yes, Mr. Chairman, there was a special advisory committee established, made up of the Boards of CEDF and MDC. I am expecting a final report to be made available very shortly as it relates to CEDF and I look forward to the recommendations as to what they are as it relates to both CEDF and MDC. As he knows or should know, having being a Member of the Government when it was operating, it is a jointly operated organization. I can tell the Member that there are some positive initiatives that I plan to do with CEDF and I can assure him it will strengthen opportunities for people in northern Manitoba.

**Mr. Ashton:** That is a very general statement. I am wondering is the committee looking—is the Minister looking at first of all broadening the mandate? I know this is a point that was discussed in last year's committee. I know as critic, I would urge the Minister to look at that, certainly look at broadening rather than restricting. Is that one of the items that it is looking at?

**Mr. Downey:** Broadening them in the sense of being able to do it without Legislative change, yes. What we can do as far as without having to go to the Legislature, we do plan to broaden its mandate and to encourage it to do more business in the northern communities.

**Mr. Ashton:** In what way is the Minister contemplating broadening the mandate? What specific—

**Mr. Downey:** Exposure to more communities on a direct basis, Mr. Chairman, with the staff of CEDF.

**Mr. Ashton:** So really what the Minister is talking about is not so much broadening the mandate but is in terms of the contact of CEDF into the communities.

**Mr. Downey:** Broadening the accessibility, making it more accessible and available to more communities I think will in fact give more people the opportunity to do business with CEDF. That is one way. Broadening the mandate in a legislative term, no.

**Mr. Ashton:** Really, what we are talking about is not broadening the mandate. The reason I ask that is because it has been suggested in the past in terms of providing CEDF with a greater mandate in terms of beyond its current focus. We are not talking about activity here, we are talking about the mandate, so essentially the Minister is saying no.

What I would like to ask the Minister, getting into the area he has been dealing with in terms of the contact in the northern communities, is what communication there has been with staff in terms of the question of decentralizing the office, the office of CEDF. It is something that I think all three Parties have said is particularly something that should be looked at, not just a single officer, which is what was tried before but a larger component of the office. The problem that happened with the establishment of the satellite office was that it really did not have the full scope of activities, it was really dealing strictly with that single community. It did not really have the impact of broadening the contact of CEDF and other communities, but I just wonder what communication there has been with staff in terms of what I think most people agree is the needed decentralization of CEDF.

**Mr. Downey:** Mr. Chairman, let me go back to the reference made to broadening of the mandate. I indicated that legislatively I had no intentions of introducing legislation to change the mandate, but I think that what we will do with the board, or I have talked to the board, and as a Government, what we can do within the legislative mandate to broaden the scope of CEDF will be done. I guess one of the major difficulties that the board has faced and CEDF has faced in the past is the reference to loans to remote and isolated communities. How broad an interpretation can one make of that?

For example, we may have a community that is considered to be remote for certain reasons as it relates to transportation or remote as it relates to distance be a part of the factor. Let me give an example. Recently we have had the major development in the northwest region of the province as it relates to the wild rice production. There was a need demonstrated by the Wild Rice Producers Co-op in the northwest region to get support from CEDF to finance their marketing proposals so that the producers could be assured of an initial market price for the product that they bring in off their fields. That is broadening the mandate. I do not know of any past loans to producer co-ops as it relates to wild rice. That I think is broadening the mandate and giving it the opportunities to support 120 some wild rice producers that it had not done before. A lot of people in The Pas area would argue that The Pas is not remote or isolated, but it in fact qualified for the loan of some \$200,000 to ensure that the producers got a fair initial price for their product. That is broadening the opportunities of CEDF.

Let me further respond that part of the discussions as it takes place to decentralization, CEDF is a part of that. Rather than have one central focus in Winnipeg, and I appreciate the Member's support, there are certain things we can agree on even though he may feel we cannot, but I think there are several things we can agree on, that in fact should be decentralized and maybe several communities would have a loans officer and/or access to the program through staff of CEDF in more than one community.

That is the kind of concept that I see being introduced as it relates to CEDF. I think that one thing we do not want, and I say it very seriously, we do not want the people of the northern communities to think that we are in any way reducing CEDF's role. I see an opportunity to expand the role as it relates to northern and economic development.

\* (1120)

**Mr. Ashton:** I certainly would emphasize once again that I think the structured CEDF should be decentralized. I have said it in the past, not just last year, I said it in previous years and not just a single officer. I think that was part of the problem with what happened in the Thompson situation and I think that the logical next step, and particularly given some of the shake-up that has taken place at CEDF. In a way that may be the silver lining in the dark cloud that sometimes when you do have a shake-up you have the opportunity to start from scratch. I would certainly urge that.

The specific question I want to ask the Minister is, what communication has been with staff on that? Because my understanding is that people have been told, yes, there is going to be decentralization and then that has been put on hold. There is a fair amount of uncertainty as to what, if any, decentralization will take place. It is certainly causing a disruption in terms of the staff itself. I am wondering perhaps if, through the Minister to Mr. Chiswell, whether I can get some clarification of exactly what staff have been told and what the current plans of CEDF are in terms of decentralization.

**Mr. Downey:** Mr. Chairman, I will let Mr. Chiswell talk on his own behalf, but let me just say as a Minister, I believe it is the board's responsibility to work co-operatively with the management. I can assure him that there will be a plan put in place, and when the decision is finalized, then the management and the staff will be communicated with directly and everyone will have a clear understanding as to what is expected of them and what the future will be as it relates to decentralization. That, I can assure the Member, will be done very shortly. Now there are plans to make sure that everyone has a clear understanding of where they are at.

I can appreciate, as I do in the whole question of decentralization, when you are dealing with people's lives, it is a very sensitive area and we want everyone to feel comfortable with those decisions.

**Mr. Chiswell:** Mr. Chairman, decentralization has come up since the last Standing Committee meeting, and of

course our staff read Hansard and are aware the same as all of us are. They have come to me on several occasions and I have told them that we have a job to do and we have come out of a period of disruption and in fact our business is just now getting back onto track again. We are really progressing. We are beyond our budget expectations.

Of course, people are concerned. They are worried about their future. What I have told them is that we cannot let that swerve us from our goal and we still have to carry on business on a day-to-day basis and that in any case they will be treated fairly. I have discussed this with all of our staff, told them there is a possibility of decentralization but that there is nothing we can do about that at this point.

**Mr. Ashton:** There is also the other side though. My understanding is that there have been people who basically have been told that they will be moving and then the time period which it appeared they would be moving has since past. There is a lot of uncertainty as to whether this is going to take place. Not certainly uncertainty for people who do not want to leave, there may be some people who want to relocate in northern Manitoba. A number of the employees have got a strong background in the North and would be more than happy to, I am sure, locate in northern Manitoba. But I am really asking, not just in terms of the general discussion, because I agree, because anybody who has read Hansard and really looked at the situation will I think recognize that decentralization certainly has to be the No. 1 priority issue that has to be looked at.

What has been the communication with staff and have there been mixed messages? Have staff been told they are moving, and then told they are not moving? The reports I have are that there is a lot of uncertainty coming from completely mixed messages as to where people are going to be located and people are trying to make plans based on the message they are getting and are unable to do so because of the confusion.

**Mr. Downey:** Mr. Chairman, in fairness to the management and to the individuals involved we had to go through a process, and have gone through a process, of how do we relate to MDC? How does CEDF sever what they do with MDC and the responsibilities?

The second point I want to make very clear, and maybe the reason it has taken a little longer to finalize the decision is the sensitivity to staff. We want to make sure that everyone is treated fairly and equitably, and I know that any time we talk publicly, at committee or wherever, when we talk of decentralization, then it raises a nervousness among individuals who have maintained their lives in Winnipeg and/or at any location.

Let me assure the Member that it is my intention, as soon as possible, when I get the final report and we get the proper system in place, that everybody will be clear as to what the Government's intentions are to deal with the moves of CEDF. There may be more than Mr. Chiswell has told the staff. If there has been, he is quite free to put it on the record at this time.

**Mr. Chiswell:** Mr. Chairman, no, we have just—and I guess the mixed message is I can understand what

you are saying, Mr. Ashton. The message that we have given the staff is, yes, the message is clear that there is going to be decentralization, but I think the mixing of messages is who and when. For example we have one of our staff members whose wife has already moved to Thompson and he commutes. He lives here and commutes. Of course, he is wondering about the future. That is the only mixed message that I am aware of.

**Mr. Ashton:** My understanding too is that there are several people who have through discussions either been told directly or received the impression that they would likely be transferred to particularly a Thompson office. My understanding is that the number of people who would be involved in an office of at least two or three people in that community, and that there may be possibilities of other satellites. I think the uncertainty is creating the difficulty, and perhaps in trying to bring a bit of a focus on this I would like to ask the Minister when he anticipates the final report and when he anticipates a clear message on decentralization.

**Mr. Downey:** Mr. Chairman, I would like to have had it done by now, but I can assure him as soon as I can get it done, I would like by the first of the new year, that we can have the decision made and everyone knows exactly where they are at.

**Mr. Ashton:** I have no other questions. I wonder if the Liberal Members would like to perhaps ask some questions and I will continue later.

**Mr. Laurie Evans (Fort Garry):** I would just like to seek a little more clarification on the interest rate. It is indicated that it was based on the 5-year loan rate but, at the same time I find a little difficulty interpreting that when I see that the interest rate ranges from a low of 7.5 percent to a high of 11. I am quite sure that there is no place that you can borrow at 7.5 percent at the present time, or could have at any time in the past five years, so I would just like to seek a little clarification as to how that should be interpreted.

**Mr. Chiswell:** Mr. Chairman, I should tell you that, and I just forget the exact date, in the early part of the '87-88 year the board changed the method of calculating interest. Prior to that it was based on the Government of Canada announced interest rate each Thursday and we used to within one-eighth of 1 percent the interest rate that was announced.

Early in this particular year the board changed so that the interest rate was based on the long-term borrowing rate of the Province of Manitoba for a 5-year term. Each month the Department of Finance issues a letter which indicates what the average 5-year borrowing rate is for the Province of Manitoba. For example, two months ago that rate was 9.75 percent. When all other interest rates were rising, it was coming down. Now it is coming back up again. That changes every month and it can be quite a swing.

**Mr. Laurie Evans:** One should not I guess cross-reference, but what puzzles me a little bit is when we are looking at McKenzie Seeds, in '87 the interest rate

that was used was 11.13 percent and in '88 it was 10.52. There seems to be some discrepancy in terms of the figure that is used in calculating what the interest cost would be in these two, in the Crown corporation and this time, in one case in the fund and the other.

The other point I would like clarification on is, it would appear that Government policy, and I assume this has not changed over the years, is more in terms of direct loan than it is in loan guarantees. I wonder what the rationale is for adopting a direct loan policy as opposed to a loan guarantee policy.

**Mr. Downey:** I am not quite clear what the Member is saying. Is he saying why continue on with a loan guarantee or a direct loan?

**Mr. Laurie Evans:** In looking at the figures that have been provided there is much more money being provided through direct loan than there is through a loan guarantee procedure. It would seem to me from an administrative standpoint it would be much less expensive to operate on a loan guarantee policy as opposed to a direct loan policy.

**Mr. Downey:** I guess basically it has been the demand of those individuals wanting loans from CEDF that their preference has been a direct loan rather than a loan guarantee option.

\* (1130)

**Mr. Chiswell:** If I can comment on that, CEDF provides more than just lending. Our role is one of a developmental role. For example, each of our loans is monitored very closely after we make the loan. The purpose is to make sure that those jobs that we are creating are maintained. For example if we made a loan of \$100,000 to a client, we try to visit that client every four months subsequently to help them with their bookkeeping system, to make sure that they are on-line with their original business plan that they presented to us, to make sure that their expense items are in line with what they had predicted, to make sure that their market has not changed. Our consultants do not provide the sophisticated kind of advice that an accounting firm may provide, but we do provide some basic business principles and basic bookkeeping skills that are very helpful to our clients. Probably 20 to 30 percent of our time is spent not in administering the loans, but in offering consulting advice to our clients after the loans are made. To that end there has been very little demand for guarantees.

**Mr. Laurie Evans:** I appreciate the clarification because this does, it would appear to me on the surface that the administrative costs are exceptionally high for the amount of money that is being handled, but the clarification, it is not simply a fund of last resort, it is a fund that is providing additional resources and support as well, I appreciate the comments.

**Mr. Parker Burrell (Swan River):** I just want to say that up in our country, banks are not easily accessible. I live 90 miles in either direction from a bank. If you

get up into Easterville, up into that territory it is really very difficult because a lot of the people that are trying to get into a new venture or something, in my case I am usually in the bank with cap in hand two or three times a week. That is not the case up in the North. That is another reason why loan guarantees are not as direct and to the point.

**Mr. Angus:** Mr. Chairman, I was just going to tell Mr. Burrell that because he is an MLA, he has a lot of security. Can I just go over the schedule of the administrative expenses, Mr. Chiswell, very briefly? Before I do that, I was just curious as to the number of employees you do have and their locations.

**Mr. Chiswell:** Mr. Chairman, we have made a concerted effort to review all of our staff positions in the last six months, and I think that it might be more useful for you to know that about NDC and CEDF. In April, 1988, the staff complement was 25; in 1989 it was 17. All of the staff are located in Winnipeg. Our consulting staff, which numbers eight including MDC, spend approximately 25 percent of their time away from the office.

**Mr. Angus:** I am curious about the rent and utilities of \$114,000, just doing a very quick calculation on the number of employees you have and the familiarity with leasehold costs, there must be something more here that I cannot see. It seems inordinate.

**Mr. Chiswell:** Yes, Mr. Chairman, it is. We had rented a substantial amount of space on the understanding that part of it would be subleased, over 25 percent of it would be subleased. Unfortunately the persons who were the sublease ran into severe financial difficulty and we were forced to evict them. As a result, our costs have skyrocketed. We have only one more year to go on the lease and we are now seeking much smaller quarters, about 50 percent of what we have at the present time.

**Mr. Angus:** Good. Once you cut your staff down by 40 percent then I question even half of \$114,000—\$70,000 for space. That is a decision that you will have to make and we will be interested in looking at it very closely. The credit reports seem to have jumped in 1988 over 1987. Is that as a result of bad debts and/or necessity to scrutinize that more closely?

**Mr. Chiswell:** We basically do credit reports on new applications so that reflects increased activity.

**Mr. Angus:** 1988 over 1987 was not that large a jump in applications being approved so I find some inconsistency with the need to do credit checks on activities that you have not done. Only in the Government, you say?

**Mr. Chiswell:** Mr. Chairman, as I mentioned before, we have an application to loan approve ratio of approximately 10 to one and during that year we had a number of applications that were declined, but nevertheless, once an application is made, the first thing we do is seek a credit report. I should tell you that



among our management that is an issue that we have been looking at because we are not absolutely certain that we are getting value for our dollar.

**Mr. Angus:** Okay. That still does not explain the 66 applications approved in 1987 being virtually the same in quantity anyway as the 70 being approved in 1988 and thereby extrapolating your ratio the same number roughly of applications coming in and yet a 100 percent increase in your credit checking. I would question them myself to see if I was getting value for my money but I do not want to put any words in your mouth but you are reviewing that process to get that information.

**Mr. Chiswell:** Yes, we are.

**Mr. Angus:** What do the directors get paid for?

**Mr. Chiswell:** Our directors are paid on a monthly basis and our directors are paid \$250 per meeting, our chairperson is paid \$500 per meeting. In addition there are certain committees that they are on that they get paid extra for.

**Mr. Angus:** How many people on your board?

**Mr. Chiswell:** Seven.

**Mr. Angus:** Has the board been fairly consistent or is there a selection process with the new Government? Has there been a new board of directors put in place?

**Mr. Downey:** Some new board members but not totally a change. There are still some Members that are on that were on previously.

**Mr. Angus:** Does the board of directors' remuneration include their travel expenses or is that in addition? That is there are a number of them out of town so they would have to come in to town I suspect if everybody is located here.

**Mr. Downey:** They are paid travel.

**Mr. Angus:** Mr. Chairperson, through you to the Minister, it seems to me that if I was going to establish a business, a doughnut business as an example, I would want to put my shop where people would buy doughnuts. That makes sense, and it does not make sense to me to have the Economic Development Fund offices and all their employees employed right here in Winnipeg.

I am not specifically saying that it should be in Thompson or in Flin Flon or The Pas or some other remote region, but it seems to me that if you are sincerely interested in developing particularly hard-to-get-at applications from remote locations, that there is an inconsistency between your actions and your desires. I would just like to hear what the Minister's game plan is, not in opening a token office in Thompson with an individual, but in opening an office perhaps in a place like Lynn Lake or Cranberry Portage and/or Flin Flon whereby you may be able to maintain an executive link in Winnipeg, but administer and do and

provide the jobs in that region and have a better finger on the pulse of the community and the needs.

**Mr. Downey:** Mr. Chairman, I do not disagree with what the Member has said and if he reads Hansard, some of my comments earlier, I believe will understand clearly what the Government's policy is to correct the problems that the Member points out. We are in a process of doing that and I agree with him that we should be in those communities where we expect to do business because it is a matter of being where the action is, and I think that is expected of Government to provide that when in fact there is an organization such as CEDF. We are dealing with it and I hope very shortly to be able to lay out precisely what the plans of Government are with CEDF as it relates to decentralization and providing more of an access to the people who we would expect it could support in their economic interest.

**Mr. Angus:** I guess hearing it once is as much as I can handle and I have not bothered to—"bother" is perhaps a bad word—I have not found time to read your wonderful words in Hansard.

\* (1140)

I would have felt much more comfortable if the Minister had said positively, yes, this is what we are going to do and we hope to have it accomplished by this particular time. I realize that things take some time to put together but there has been considerable amount of time since the 1988 report and since they have taken over and I would like to put the Minister on notice that the next time we have an opportunity to review the Economic Development Fund, I sincerely hope that he has put his money where his mouth is and removed the words that have not accomplished the desired end result that we both seem to want. With that, Mr. Chair—

**Mr. Downey:** Mr. Chairman, again as I said in McKenzie Seeds, I hope to be here a year now as a Minister so I can give him that positive response.

**Mr. Angus:** If you are not, I will be and I will do it. I will not take 18 months.

**Mr. Downey:** Just in fairness, we have gone through major, major activities with the Auditor's Report within the Communities Economic Development Fund. Changes have been taking place and one has to do it in a reasonable, rational approach, not reactionary because you are dealing with people's lives when it comes to decentralization and there are sensitivities.

I said earlier and I will say it again, we are in the process of working on a decentralization program for CEDF. We will be moving employees to the communities to which we hope to provide a better service, and I said earlier in committee I hope to have an announcement prior to the first of the next year, being January 1, 1990.

**Mr. Angus:** It remains to be seen whether you are still there or not.

**An Honourable Member:** Is that a threat?

**Mr. Angus:** A threat? It is the first positive recommendation we have had at this table. If I may just serve notice on another area of the requirements that I think should be met by the board, I would like to discuss whether the board of directors has an audit committee that looks at the—and perhaps I will do that first and then share some comments.

Do you have an audit committee, and does it report regularly on efficiencies and/or methods of administrating and methods of securing the loans? Do they look at the way the business is being run objectively to try and plug loopholes and to move to getting more value for their money?

**Mr. Downey:** Yes.

**Mr. Angus:** Mr. Chairperson, perhaps Mr. Chiswell could just reflect a little bit more on the activities of the audit committee.

**Mr. Chiswell:** Well, all I can say is that before I had an audit committee my hair was a dark brown and now it is a different colour.

I can assure you that we have a very active audit committee and we have a board that is unique as far as I am concerned, because we have a board that does not deal strictly with policy, they deal with some day to day issues. I have never worked with a board in that kind of environment.

Our audit committee reviews our budget in a great deal of detail even down to items like stationery, pens and pencils. We have to provide each year, to our board and of course ultimately to the Minister, a business plan with the attached budget. We have to report regularly, quarterly, particularly on whether we are achieving those goals or not, to the board.

**Mr. Angus:** One of the things that I would like to serve notice on, to this Crown corporation and others, is that in future annual reports I would like to be able to clearly identify what the goals and the objectives of the organization are, and how they did in relation to attaining—if they did better than they had attained. That may indicate a budgetary process review. If they fell short of attaining their goals, then there should be some reasonable explanations that are understandable by the Members of the committee.

The historical information you provide is valuable, but I am not sure whether your goals are to create jobs, give away money, or to process as many applications as you can. So I find it difficult. I am sure that my comments are consistent with the Auditor General who is anxious to be able to review, under those circumstances, value for money and management attainability of good goals. If the plans are being created on a quarterly basis then it should be reasonably easy to summarize them on a global basis for an annual report such as this one. So with that -(interjection)- Oh, I am sorry, go ahead.

**Mr. Downey:** I was just going to say the Member's comments will be taken into consideration.

**Mr. Ashton:** In the last few minutes there has been a lot of discussion if the Minister will be here next year,

I suppose if any of us will be here next year. I think the one encouraging thing is that there appears to be broad consensus on this that there needs to be more than a partial move of CEDF to the North.

I think this particular opportunity, given the historical background, I am aware of it by the way in terms of the time between MDC and CEDF, there is a real opportunity here to give CEDF that much more autonomy. When you give it that much more autonomy it also provides for a greater potential for it to be located in the North. By the way, there is office space available in many communities, including Thompson.

I realize, as MLA for Thompson, there may be people who think that it should be located only in Thompson, or at least I would be suggesting that. I think there is some possibility of having not only a central office in the North, but also satellite offices, because what has happened over the last number of years is it used to be that Winnipeg was a centre for much contact from the North but more and more organizations are seeking to move. I know at the NACC conference this was a matter the Minister raised, was raised by NACC in terms of their decentralization. We have seen that in terms of the Limestone Aboriginal Partnership Development Board. More and more organizations are locating right in the North—whatever community, whether it be Thompson or The Pas, the central communities—and I think there is a real possibility for CEDF to join that, and certainly it would help counter some of the moves by the federal Government.

They are moving in the opposite direction, and it has been raised in the Legislature, the Northern Development Agreement Office, which has been closed in Thompson, for example, the CMHC office, which has been closed in Thompson. So we are in a position where we are losing items. In the case of Thompson, for example, the Northern Training Authority has basically been closed and folded into KCC, which will result in loss of jobs in the community. So anything that could be done to move toward decentralization would be a great deal of assistance. I know in Flin Flon, for example, they lost their driving examiners. So CEDF may be a really logical move, and a counter to some of the other centralizations and changes that have taken place.

I just wanted to ask, in the same vein that I had asked in terms of some of the previous reports, just to get some idea of the situation this year. We are dealing, obviously, with the last fiscal year, with the report '87-88. I am just wondering what the experience has been this year in terms of just the general loans, number of loans approved, and if there is some indication of what the loss ratio has been over the past year.

**Mr. Chiswell:** Mr. Chairman, as I said earlier, we had a disruptive influence in the '88-89 year, but since then our activity has increased substantially, and to the end of September we are ahead of budget.

**Mr. Ashton:** The '89-90 fiscal year there has been a pickup, but '88-89 was lower in terms of loans approved and jobs that were a by-product of those loans?

**Mr. Chiswell:** Yes, substantially lower.

**Mr. Ashton:** Were there lower numbers of applications or was it strictly from the board level or is it a combination of them both?

**Mr. Chiswell:** Mr. Chairman, we will be reporting on that activity at the next standing committee, and I guess I am not sure whether we should be reporting on that at this point or not.

**Mr. Downey:** I do not think there is any difficulty of talking about trends. That is really what we are talking about, and the manager has indicated an increase in loan activity specifics I guess would be more difficult to deal with and if the Member is satisfied with that.

**Mr. Ashton:** Well, we did get some clear ideas in terms of the previous reports. The reason I am raising this is because I did raise, in the committee, a concern last year that there not be the type of drop-off that we saw take place when there was a last change of Government back in 1977.

I do not want to overly politicize the situation, but we did see under the last number of years a dramatic increase in the number of loans that were approved. It went from average, about a million dollars a year, to \$2.5 million up to the 1988 period.

I did raise the concern that there not be any cut in terms of the loans approved. I am trying to give the Minister and CEDF every opportunity to explain why there was the drop. I would like to think it is not politically motivated. That is really why I had asked the question, is to allow the Minister and Mr. Chiswell to give some explanation why there was such a drop-off in '88-89.

\* (1150)

**Mr. Downey:** Mr. Chairman, it is not the intention of the Government to reduce loan activity or activities in northern Manitoba, and I think it has been expressed many times, whether we talk decentralization, we talk northern activities, we want to see the opportunities for business in northern Manitoba, because of the inherent unemployment problems we have in a lot of our remote and isolated communities that we have to in fact enhance business opportunities and employment opportunities for Northerners.

I believe it is clear that some of the problems CEDF had in the past year was with the results of the Auditor's Report, which is available to all Members, activities taking place internally to try and get on stream and get some things put in place that could in fact enhance the delivery of their programs. That is ensuing and I expect activities under CEDF in northern Manitoba to continue to increase. I am strongly supportive of it as our Government is.

**Mr. Ashton:** My understanding is the 1988 and 1989 fiscal year decreased. That is correct. Can we not get some idea of what the drop off was? I realize it is difficult. We do not have the official report, but I know in the case of the previous reports there was some

effort to give a, you know, ball park figures and that is all I am seeking. Is there some indication of what the level of loans approved in 1988, in 1989 was?

**Mr. Chiswell:** Mr. Chairman, I guess I would like to offer you some explanation first of why, or in our opinion, management's opinion that loans were reduced substantially. I am still getting calls from people saying, are you still in business, we thought that having read the newspapers in 1988 and 1989 that you are no longer in business. So I guess all of the publicity as a result of the Auditor's Report had a pretty significant affect on our business. Our loan activity is probably reduced by 40 percent in 1988 and 1989 in terms of numbers.

**Mr. Ashton:** Well I am very concerned about that drop. That is a major drop. I do not think there has been a decrease of that magnitude since 1977 to 1978. I really hope that it is not a pattern. You know, the first year the Conservatives were elected in 1977, and in 1978 there was a drop, by my calculations, of about 40 percent. I want to put it in context too, because last year I raised the concern that we not, as the Touche-Ross Report, incidentally, which was released in March of 1988, which made recommendations on CEDF, made very clear. It said, we wish to caution that the significant scrutiny that the fund has recently undergone may swing the pendulum too far on the control side.

CEDF is on a very sensitive balance and you know I realize there may have been some problems related to the publicity surrounding the audit. I incidentally raised some concerns about the way the audit was brought in, you know, the announcements made by the Minister and the kind of publicity it received. I think that was something the Government had to consider in the way it dealt with the audit and the way it announced the audit and the way it conducted the audit. So I am not sure that we can simply put aside the significant drop. I am hoping that it will not last, but I am concerned again that perhaps the uncertainty over, for example, the decentralization, now will be the reason we will hear in the next committee that there are still concerns, but I mean a 40 percent drop in the loan approvals is pretty significant. I am wondering in that regard why some action was not taken during the 1988 and 1989 fiscal year to deal with that very significant problem.

I realize that there was some attention given to the audit, but surely when you have a major drop in your loan portfolio of 40 percent it is time to look at what is happening. If there is a problem with signals coming because of the announced audit, communicate to people that it is open. CEDF has surely mailing lists, contacts in various communities. Why was action not taken to deal with what I would call a major drop in loan approvals in the 1988 and 1989 fiscal year?

**Mr. Downey:** Mr. Chairman, I would have hoped the Member would have tried not to get into the political angle at which he is approaching it. Again we had to clean up what was I would say very bluntly a mess that was left by the former New Democratic Government. Precisely what we were doing was cleaning up a mess in CEDF that he was a part of and did not want the auditor to report on. He wanted to continue to leave

it as the mess that it was. Mr. Minister it was he who moved a CEDF loans officer out of Thompson. It is we the Conservative Government who are decentralizing and putting it back. The current trend is upward from last year. Yes, we did not have as many loans last year but it was not by policy. It was because we were in the process of cleaning up again a mess that was left by him and his administration and the people that were supposed to be responsible for the fund. I look for a new base from which CEDF will work upon that we have a clear understanding of decentralization, that we will in fact be going into communities to loan money to create employment where in fact he and his Government were a dismal failure with 90 percent unemployment in most of the communities and lending money to his political friends.

Mr. Chairman, it takes a while to clean those kinds of messes up and that is really what it was all about if we have to be blunt and straightforward with him so we can understand that is what we were doing. Now we are back on solid footing. Direction of the board is clear. Direction of the Government is clear and management understand what the job is.

I said very clearly we just loaned \$200,000 to a 124-producer marketing co-op for wild rice in northwest Manitoba. I think that is a clear signal that we are in business and out there to support the average small person, not large loans like he was giving to his political friends.

I did not particularly want to get into this with the Member, because I do think it is time we got on with the positive things with CEDF. I am pleased that we have got the system in place that we have. I look forward very shortly to making some announcements that are extremely positive, and I would think he, as the Member for northern Manitoba, will be supportive of.

**Mr. Ashton:** I find the last comments of the Minister to be absolutely incredible. He talks about cleaning up the mess.

Last year in committee, we dealt with the exact recommendations in this regard. We dealt with the fact that under the New Democratic Party, if you want to get into the straight politics of it, loans increased from about \$1 million dollars a year to \$2.5 million a year on average, \$2.5 million on average.

Last year I put a question directly to one of the individuals who was appearing at committee as to what the loss ratio was during that period of time. It was indicated quite clearly that the loss ratio remained virtually the same. In other words there was a 250 percent increase in loans and there was no change, no increase, in the loss ratio.

For the Minister to turn around and talk about that being a mess, perhaps he would like to look at the Touche Ross Report for example which talked about the many success stories of the fund. They were representative of the type of development that the fund has been mandated to develop. Perhaps he would like to share the complete picture of the situation.

For the Member to then suggest that the reason there was a 40 percent drop in the loans, Mr.

Chairperson, was that they had to clean up the mess. I will tell you with medicine like that you are going to kill CEDF. For a problem that I think is all in the mind of the Minister, I find it absolutely incredible that you scratch the surface with this Minister and you hear some of the most incredible suggestions possible.

I gave the Minister every opportunity to explain why there was a 40 percent drop in loans. As I said I was hoping that history would not repeat itself. I hope the Minister will come to his senses, in terms of dealing with this situation, and not repeat the sorry record of the Conservatives the last time they were in office. I have the figures right here in case the Minister does not have the report in front of him when in the first year they were in office, the average number of loans dropped substantially.

There was a 40 percent drop last year. In the committee I expressed concern that there not be that type of a drop. I expressed concern in particular the Minister not move as the Touche Ross Report recommend, and not move too closely towards swinging the pendulum towards the control side. What I am hearing now is, I think first of all, typical of the Minister's ability to rewrite history. He knows that CEDF had many successes under the NDP, and I think the ultimate measure of that was the fact that there was such a major increase in loan portfolio. There was not an increase in the loss percentage.

\* (1200)

Quite frankly he still has not really accepted the responsibility for the 40 percent drop in loans last year—40 percent drop in loans. I think the responsibility has to rest with this Minister. He initiated the audit, and the way in which he did he phrased it in a way that he used the terms, here, clean up the mess. He suggested there was a mess. That is a ridiculous statement, and it is an irresponsible statement.

I would suggest that if there is any difficulty that took place last year the Minister has to accept responsibility for it, because if he had not been going around making such irresponsible and inaccurate statements perhaps there would not have been that dramatic fall.

I do not know if there are other reasons as well. I hope the board, the new board that was appointed, has not been moving too far toward the control side and rejecting loans that might otherwise been approved, but a 40 percent drop in the first year in which this Minister was responsible for CEDF requires some explaining, and he cannot blame it on the previous NDP Government. They can bring out all these envelopes, you know we have all heard the envelope story, where the first envelope you open is, blame the previous Government. How he can blame the previous Government for the fact that in the first year of a Conservative administration there was a 40 percent drop in terms of the loan portfolio I do not know.

How can he suggest that, when he was the Minister and has to accept responsibility? Now if he wants to try and put forward explanations—and I respect Mr. Chiswell. His role as the acting general manager of the corporation, in putting forward some explanations, and

I appreciate the information that was put forward—but for the Minister to get into this political tirade and suggest that he can blame the 40 percent drop under his first year as Minister on the previous Government, I do not know.

I can tell the Minister, and I indicated before, and I have said this again, and I am sure I speak for every one of my colleagues in the North, when action is taken that is positive we will support it, we will make suggestions, we will support initiatives taken by the Minister. In terms of the decentralization, he will have 100 percent support. I think we all agreed earlier and I think one thing that will happen is regardless of who is here next year presenting this report, I do not see any reason whether or not to be the decentralization. I am hoping that he can turn it around. I am hoping that the current fiscal year will be an indication of things to come, but the Minister cannot wash his hands of the responsibility. He became Minister in the spring of last year.

I asked questions related to the '88-89 fiscal year. The report we are dealing with right now is the last year of the NDP. I asked questions about the first year under the Conservatives and there was a 40 percent drop in the loan portfolio. It would just acknowledge that perhaps one of the factors was the publicity surrounding the audit. Publicity which the Minister had control over. He was the one going around the province making these irresponsible and inaccurate statements about CEDF being in a mess when it clearly was not the case. So he has to accept responsibility.

In fact, I would like to ask the Minister and perhaps ask Mr. Chiswell, in terms of the current situation—and I asked in terms of the last fiscal year, we are into the new fiscal year there maybe has some pickup—what action will the CEDF take to get the message out to the northern communities that despite the statements of the Minister that CEDF is not in a mess, it is very much in business and can provide a useful service in northern Manitoba? I think that is the kind of message that does need to get out there.

**Mr. Downey:** Mr. Chairman, let us go back and review what took place. I will be brief for the benefit of the Member for St. Norbert (Mr. Angus), because it is not the Member for Arthur (Mr. Downey), the Minister of Northern Affairs, who pointed out all the wrongdoing. It was the Provincial Auditor. If he is here today challenging the Provincial Auditor's report, let him have the intestinal fortitude to challenge the Provincial Auditor on his report under the administration of the New Democratic Government.

It was not me, it was he would be administering it and this is the Provincial Auditor's report and I can read parts out of it for him if he likes, like the leasing of space that was unnecessary to a friend of the former general manager. It is in the report, Mr. Chairman, of what it cost the taxpayers, about the trips to a villa by the former general manager, to staying with a company who they in the future sold the bus company to. That is not the Member for Arthur, that is the Provincial Auditor who is pointing this out. I invite him to read it, not to attack or to challenge me.

What I stated was a fact, that this was being carried out by the provincial auditor. Do you expect CEDF to be going out doing a lot of business when they are under an audit by the Provincial Auditor's Department? They were spending their time trying to explain their activities under the leadership of Howard Pawley and the Member for Thompson at the same time he was pulling the Communities Economic Development Officer out of Thompson.

So do not let the Member attack me as a Member, as our Government for a 40 percent reduction in loans. It is because we were going through an audit by the Provincial Auditor of which if the Member is not happy with, then let him have the intestinal fortitude to stand up and challenge the Provincial Auditor's Report who reports to the Manitoba Legislature, not me the Minister. He was the Government, he was the Member of the Government. It was not us.

**An Honourable Member:** Not when the loans were off 40 percent.

**Mr. Downey:** He talks about loans being off 40 percent. We were going through a major audit. Did he expect CEDF to be going out carrying on business as usual when we were being asked and meeting on a regular basis for several weeks with the Auditor explaining what had taken place under his misdirection? No, you could not expect him to carry on business.

Let us look at what is currently happening and that is what the Member is trying to leave on the record and get a headline that the CEDF loans were down 40 percent. They are down 40 percent not because of a Conservative Government, it is because the mess and the misadministration of the previous administration who loaned money to their friends and it was completely out of control. That is why the loans are down because we went through an exercise of clean-up and a Provincial Auditor's activity.

Secondly, let us look at what has happened currently. We have now seen another turnaround in CEDF and I think the report to the press and the public should be that now we have seen a 50 percent increase in loan activities for the current year. That is exactly what has happened, so not let the Member leave on the record that the Conservatives are out to kill CEDF.

The Conservatives cleaned CEDF up, are going to place it in northern communities like the Member wants and it will in fact work in the interests of the people of Manitoba, not the friends of the New Democratic Party as was happening in the past, 40 percent drop in loans has nothing to do with it. It is the Auditor's Report that we were dealing with. That is what we were dealing with and we now have a 50 percent increase in loans so the Member should be happy with that and I am surprised he has not expressed it.

**Mr. Angus:** Mr. Chairman, just on the last note the giving away of money and/or the loans, I will be happy if they actually do reflect the growth path that we want in job creation and activity and assume that they do that.

One of the difficulties we have at this committee, never mind the rhetoric of the past and the blame



shifting between the two Parties that have been here for so long, is that we are dealing with a report that clearly on its face is not a good report. It is very symptomatic of difficulties and of problems.

They are a quarter of a million dollars in expenses over revenues, incomes. Just going through very casually on the expense statement I can find \$100,000 that I would question very, very closely and if I was the Minister I would get specifically in to some of the activities.

That is a report that is dated 1988. We are now well on our way to 1990 and it is to be assumed that these corrections have been made and that all the good news that the Minister is telling us about is to be immediately realized. May I ask, through you, Mr. Chairperson, when we can expect to see the 1989 report that will better reflect your influence as a Minister on this corporation, because quite frankly this is history. The Auditor pointed it out, the fights were there, and we know that there were strong symptoms of difficulty. Steps have been taken to correct them. The concept is still good and all we had is words and indications from the Minister. When are we going to have something to look at in terms of the 1989 report?

**Mr. Downey:** Mr. Chairman, it will be made available as it has traditionally been done to the legislative committee.

**Mr. Angus:** You have no idea when that will be?

**Mr. Downey:** I guess we have to finish this Session and Members of the Opposition, when they want to get on with Estimates and activities of the House, then we will proceed. It is in the hands of the Opposition.

**Mr. Angus:** Mr. Chairperson, that is nonsense. There is no rule that says that we have to finish a Session before we can consider 1989 reports. There is no rule. You have brought forward 1987 reports, 1988 reports at the same time. We sat here and looked at them. There is no reason why, if that report is available, if it is concluded, if it is as glowing as you suggest it is and, quite frankly, I resent the challenge to (a) my integrity and (b) my intelligence, by the Minister in that regard.

There is absolutely no reason why we cannot consider the 1989 report which is a full year of this Government in operation. Hopefully those reports would reflect the benefits that they are suggesting. It is just so much baffle-gab that suggests that there is any reason for the delay.

**Mr. Chairman:** As Chairman of this committee, I would like to ask the guidance of the Members. It is 10 after 12. Is it the intention of the Committee to pass this report with a few additional questions? Why I am asking this is some of us Members have a different meeting that we would like to attend if it will not be passed today, but if it would be able to be passed today we are willing to sit here to whatever time the committee Members so desire.

\* (12:10)

**Mr. Angus:** Mr. Chairperson, I do not have any difficulty with passing the report today. We are getting into sort of stone-throwing and mudslinging. I would like to have more accurate, more up-to-date indications of the direction that the board is taking because I find that if we start to look at 1989, at the end of 1990, close to 1991, we are again dealing in a vacuum. It is the very thing the Auditor said that we are all faced with doing, and it is not very responsible. So I am prepared to pass this report today and ask them to get on with bringing the next report back so that we can see the progress we hope is being made.

**Mr. Ashton:** I have some further comments and questions. I think we will try and wrap it up today, I do not see that as being a difficulty.

**Mr. Chairman:** Very good then, if it is the will of the committee, we will stay sitting.

**Mr. Ashton:** I just want to read it into the record and I do not want to belabour this, but for the Liberal Member I think it is important because I am concerned about the impact in northern Manitoba. I am concerned about the number of loans that are going to northern communities and I would hope that the Member for St. Norbert would be concerned about that, as well. That is the bottom line with CEDF.

I went through the basic situation, but I want to indicate the type of concern that I do have and my hope that next year the Minister will come back and will reverse the situation because I do not want history to repeat itself. That is all I do not want to happen.

The first time the Conservatives were elected, '77-'78, the loan ratio dropped substantially. The average over that period was \$1 million. Okay, under the NDP, the first year the NDP was in office, it increased by about 230 percent, the average was \$2.5 million over the seven-year period. I think anybody in northern Manitoba would be concerned about a 40 percent drop in one year in the loan portfolio, given what has happened in the past.

I am hoping that the Minister has learned his lesson from the disaster of the Sterling Lyon years, and he was a Member of that Government. If he wants to talk about history, we can get into that. I do not think that is what we really want to do though today. What we want to do is—and I want to, as critic for the New Democratic Party—for CEDF, pinpoint my very major concern about the 40 percent drop that has taken place in the first year and, for whatever reason, whether it is the incompetence of the Minister and the Government, whether it is because of changes in policies, whether it is because of the uncertainties surrounding the audit, the Minister has to accept responsibility.

Mr. Chairperson, the Minister is the Minister who has been responsible for the 40 percent drop.

**An Honourable Member:** Not in this report.

**Mr. Ashton:** Not this report, the last figure for this report was the highest number of applications in the

history apart from, I believe, one year previously, and also basically the same amount as 1987, once again, the highest amount of approved loans in history and one of the highest number of jobs created. The first year the Conservatives were in office it dropped substantially, and I am concerned about it, as an Opposition Critic. Really what we say in this Chamber is of less concern to me than the situation in the communities. I want to take the Minister at his word and I will take him at his word in terms of future directions for CEDF, and I will support any initiatives that are positive in that regard, and our caucus will. I want to indicate that on the record.

But I do not think the Minister should expect to escape from this type of criticism today. I know when he was a critic, if a Minister brought in a report and it said, well, in the following year there is a 40 percent drop in the loan approvals he would have been yelling and screaming at the top of his voice about incompetence. Now, it never took place under the New Democratic Party, there was not a decrease. In fact, if you look at it, the general trend was dramatically upward, a 250 percent increase in the average number of loans over that period.

I am not playing with statistics here; that is the bottom line facts. There were more jobs under the NDP than there were under the previous Government and there were more loans approved. You know, I do not want to see the clock reversed, I want to make sure that there is at least, if not more, jobs available. That is why, for example, I think the Minister might want to consider bringing in amendments to the CEDF Act if he wants to really broaden the mandate. Well, look at it, I think there are areas that CEDF could be performing a function, a service to Manitoban which it currently does not do. There are many communities which have no access to even the most rudimentary banking services, or loan service, some of which are in northern Manitoba and others which are in communities that have the same profile as northern communities, but are not located in the traditional concept of the North.

I know that CEDF has moved in some of those communities in the past. If you look at the loan portfolio it is quite apparent, but it was criticized when it did it. I know it is a grey area, that CEDF still perceives its mandate as being primarily northern communities. I do not know which operational definition it is working under now, but there are various definitions of the North. It has moved, I think, very cautiously in providing loans outside of this area. So perhaps a shift onto a more positive note in terms of that.

What is the focus of the CEDF currently, in terms of its mandate, in terms of definition of northern communities, and what has its policy been in communities that have, say, a similar profile? There are many reserves, for example, that are not in the Northern Affairs community guidelines which have the same profile as reserves which are further north than that. Is there perhaps some way in which we can turn around this drop in loans and develop a broadened mandate? I do not mean further contact or outreach, I am talking about perhaps even changes to the Act which if they were acceptable to the Opposition could

be put through I think expeditiously. I am just wondering whether the Minister or Mr. Chiswell have any comments on the mandate in a geographic sense of CEDF.

**Mr. Downey:** Mr. Chairman, I just want to go back so the Member does not totally mislead the public as to what has happened with CEDF, and let us go to page 5 of the report which we are dealing with, and I will just read, for the Member's information as to what has happened so that we do not get into this 40 percent argument. In 1972, applications approved were 19, the first year of the company; 1973, my gosh, they went up to 82, if you want to use the figure; the NDP in 1974, all at once, decided they were not going to loan near as much money. They were dropped by over 50 percent, 43 loans, oh my gosh; then '75 we go down to 16 loans, and that is under whom? Not under a Conservative Government, under an NDP Government who were supposed to be so great for the North, so we go to 16 loans; in '76, 18 loans, my goodness sakes, they are really doing well, they went up from 16 to 18, figure your percentages on those; 1977—who was the Government in '77?—that was a Conservative Government, we almost doubled it to 38 loans; 1978 we go down to 20 again; 20 in '79; 1980, let us look at 1980, it went up from 20 to 37, greater than most of the years that the NDP were in; let us go on to 1981, 34 loans; still, and let us go to 1982, first year—

**An Honourable Member:** Yes, let us skip over 1981 a Conservative year in office.

**Mr. Downey:** Oh, he wants to use the argument that 1977 was a continuation of the New Democratic years so that is why we had the 38 percent, but let us go to 1982 and use the same argument. That is the carry-over from the Conservative Government, and we had 46—

**An Honourable Member:** 1982 was the first full year of the NDP.

**Mr. Downey:** —1982, yes, same argument. I would hope the Member would sit and listen to the same debate he put on the record. Then we go to '83, which is a full recognition of the NDP years of Government, back down to 31 again. Now his argument is just blown out of the water. Mr. Chairman, 1984, 49 loans; 63 in '85; 43 in '86; and 66 in '87; and in '88 we had 70.

Mr. Chairman, I made the point that the reason last year is because we were through an Auditor's Report and we were cleaning up a mess by the NDP Government, clear and plain. We are going to loan money in northern Manitoba, we are going to help those communities, we are going to decentralize. I appreciate the support of the reports so we can get on with the affairs of CEDF.

**Mr. Chairman:** Any more questions? Mr. Ashton. Questions to the report, please, let us go, Mr. Ashton.

**Mr. Ashton:** Mr. Chairman, I just want to say that the Minister has taken leave of his senses when he runs through and says 1982 was the leftover of the

Conservative years. I mean, if the Minister has to stoop to that level to make his arguments then I would suggest that he is really insulting the intelligence of the committee.

I would also like to ask the question, once again, because the Minister has become very defensive, and so he should, about his record in his first full year as Minister. Well, 1988 and '89 fiscal year, the Minister was responsible for CEDF, loans dropped by 40 percent and I said that I hoped that is not a continuing trend.

**An Honourable Member:** Look what happened under your Government.

**Mr. Ashton:** Well, look what happened. The Minister starts talking about 1982 being a Conservative year. If the Minister believes that 1982 was a Conservative year, where the hell was he in those years? We thought he was a bit out of touch at times, but to not even know where the hell he was and what was happening in this province at the time is absolutely incredible.

**An Honourable Member:** Order, apologize to the committee.

**Mr. Ashton:** Well, I think you should apologize to the committee for your completely inane—

**Mr. Chairman:** Mr. Ashton, let us please keep our questions to the report, please.

**Mr. Ashton:** So I asked my question and the Minister did not answer. I will ask it again and I asked about the geographic mandate and whether the Minister is looking at any expansion of the mandate to deal with the fact that there is an uncertainty that faces CEDF and which communities fit into its mandate, whether it is Northern Affairs communities, the Northern Affairs boundary. If you read through the report, there are many communities that are outside of the Northern Affairs boundary that have been included in terms of various loans. If you look at McCreary, for example, which is outside of that area, there are a number of them and I could run through the list but I do not believe we want to spend the time doing that, but I am asking the Minister if he is looking at any changes in terms of that to clarify more clearly CEDF's role in those communities.

**Mr. Downey:** Mr. Chairman, I indicated earlier that I do not plan to do that at this point legislatively, but the interpretation of the Act is to make it as broad as possible and assist as many people as we can with CEDF.

\* (1220)

**Mr. Chairman:** Is it the will of the committee to pass the—Mr. Ashton.

**Mr. Ashton:** Well, Mr. Chairman, we have agreed that we will pass this report today. I do not see why the Liberal Member is in such a rush to have it through. If the Liberal Member has other pressing engagements I am sure we will not miss his presence here and we can pass the report anyway, but I just wanted to finish off on some questions that will be dealing with . . . .

**Mr. Chairman:** Mr. Ashton, go ahead with your question.

**Mr. Ashton:** I would like to ask the Minister further, in terms of what has been happening, not just in terms of the overall loan portfolio, but what has been happening in terms of the loss ratio the last number of years. Last year in committee it was indicated the loss ratio was approximately 19-20 percent, I believe, in that range. I am just wondering if there has been any change in the loss ratio in terms of loans.

**Mr. Downey:** No, there has not been any change, Mr. Chairman.

**Mr. Ashton:** Well, looking for the positive signs with CEDF I think the fact it has had a fairly consistent loss ratio over the years shows that it is a very good program and one that is well worth maintaining. That is why I am asking whether the Minister will consider some expansion of the mandate of CEDF and the fact that it has clearly been a success on the financial side. I mean I realize that a commercial lending operation probably is, and the figure I am sure perhaps could be provided by Mr. Chiswell, would probably be in a lower range in terms of loss ratio. I believe if you are looking at 5 percent, 6 percent, 7 percent, 8 percent, it depends on the area and the type of loan portfolio, but really when you have only a 20 percent loss ratio that means an 80 percent success ratio. Before we leave this committee that is one thing that should be put on the record, that CEDF has a very sound footing, and regardless of what has taken place the last period of time, or recommendations in terms of the Auditor's Report that CEDF is doing a job in northern Manitoba that is pretty near to being incredible. It is creating jobs, it is creating economic activity, and it is doing so without a major subsidy in terms of bad loans, and if anything can be done to improve the administration that will only further improve the picture.

**Mr. Chairman:** Any more questions, Mr. Ashton?

**Mr. Ashton:** Pass.

**Mr. Chairman:** Okay. Shall the 1987-88 Annual Report of the Communities Economic Development Fund be passed—pass. The report is accordingly passed.

Committee rise.

COMMITTEE ROSE AT: 12:23 p.m.