

ECONOMIC DEVELOPMENT COMMITTEE
8:00 p. m. Wednesday, June 5, 1974

Chairman: Mr. J. R. Boyce.

MR. CHAIRMAN: Order please. This evening it was decided to proceed with the report of the Economic Development Advisory Board and with . . . of McKenzie Seed. Is it the wish of the Committee to proceed? I'll ask Mr. Evans, the Minister, to introduce Mr. Remis.

MR. EVANS: Yes, Mr. Chairman, very briefly. I don't believe Mr. Leonard Remis needs much introduction to the committee. Mr. Remis, as my Deputy Minister, was appointed chairman of the Economic Development Advisory Board only a matter of a few months ago when Dr. Baldur Kristjanson was assigned to other duties in the Department of Agriculture. There has been also some change in the make-up of the committee and I would hope that Mr. Remis, when he gives his report, may make some reference to the membership of the committee for the edification of the members of the Legislature who are on this particular Economic Development Committee.

By Order-in-Council it has been requested - the board has been requested - to report annually to the Standing Committee on Economic Development pertaining to priorities on development programs; and secondly, how best to stimulate and co-ordinate public and private activities in the field of economic development in the province and to generally make observations on the economic situation of Manitoba. Therefore, Mr. Chairman, in keeping with past practice, I would then on your behalf call upon Mr. Remis to present the report which is, I understand, a consensus of the Economic Development Advisory Board.

MR. CHAIRMAN: Mr. McGill.

MR. Mc GILL: Mr. Chairman, before Mr. Remis begins his report I just want to check with Mr. Evans. I have a report of the Standing Committee on Economic Development for June 1971 and June 1972. Was there a report for June 1973?

MR. EVANS: Mr. Chairman, there was a report planned to be given in 1973 but there was a dissolution of the Legislature and, as you know, a lot of business did not take place that might have taken place if such a dissolution didn't occur. Therefore the Committee did not report in that year although it was prepared to do so. I mean, the Board did not report in that year - Dr. Kristjanson.

MR. McGILL: I was just wondering how the Board would comply with the Order-in-Council which required that they report annually to the Legislature. Would they not file a written report then, when they were not able to present one verbally?

MR. EVANS: Well, I am not a lawyer but you may have a very good point there, Mr. McGill. I am not aware of . . .

MR. McGILL: There is a written report?

MR. EVANS: There is a written report - on file, is there?

MR. McGILL: For '73 and '74?

MR. REMIS: Can I answer that question? I will be touching on the report that was not given in '73 briefly, although there is a written report and I have a copy of it, and I am prepared to make it available at the discretion of the chairman.

MR. McGILL: . . . if we could have that, Mr. Chairman.

MR. CHAIRMAN: If Mr. Remis has it and . . .

MR. REMIS: I don't have it with me now but I can make that available at any time.

MR. CHAIRMAN: Thank you very much, Mr. Remis. The Committee will anticipate a copy of the report. Mr. Remis, perhaps you would like to remain seated while you . . .

MR. REMIS: I've got a mike here and if I had a glass of water -- I think it's going to be kind of a dry affair. I hope it isn't too dry for the members who are listening to this report.

MR. McGILL: Mr. Chairman, does Mr. Remis have reports that he might circulate and we could follow him through with?

MR. REMIS: At the pleasure of the Chair.

MR. CHAIRMAN: What is the wish of the committee? The committee is at the disposal of the . . .

MR. McGILL: Well, I would request that they be circulated so that we can follow him as he makes his presentation.

MR. CHAIRMAN: Okay. Then we would ask that they be circulated. Mr. Remis.

MR. REMIS: Mr. Chairman, the Economic Development Advisory Board has the responsibility, under the terms of its governing Order-in-Council, to report to the Standing Committee on Economic Development of the Legislative Assembly on priorities recommended in development programs for the province and how best to stimulate and co-ordinate public and private activities in the field of economic development in the province, and recommend any measures considered necessary to achieve the most effective means of communication between government departments and agencies and industries. In conformance with this obligation, the Board wishes to submit the following report for your consideration.

The last appearance of the Board before the Standing Committee was in 1972. The scheduled presentation for 1973 was cancelled because of the dissolution of the House and the subsequent general election. Therefore, it may be useful to review very briefly the activities of and changes in the Board since our last appearance.

The major activity of the 1972-73 year was the Rural Development Conference held at the Marlborough Hotel, February 23-24, 1973, of which mention will be made later. This followed a Dairy Industry Conference held in Brandon, December 14 and 15, 1972, sponsored by the Board, in conjunction with the Milk Board of Manitoba and the Manitoba Department of Agriculture. The third project undertaken by the Board in that year was a survey of business activity carried out jointly with the Manitoba Chamber of Commerce, the Winnipeg Chamber of Commerce, and the Manitoba Chamber of the Canadian Manufacturers Association.

Since the end of 1972-73 year EDAB has undergone some substantive changes in personnel, in part because of the appointment of the previous chairman to the position of the Associate Deputy Minister of Agriculture. Subsequently I have been appointed Acting Chairman. Professor Paul Phillips, on a one year leave of absence from the Department of Economics, University of Manitoba, has been appointed Research Director and Executive Secretary. The other members of the Board are:

Mr. A. S. Leach, Acting Vice-Chairman, who is Chairman of the Board, Federal Industries Ltd. and is a re-appointment to the Board.

Mr. L. Butterworth, retired - also a re-appointment to the Board.

Mr. Keith Ebborn, President of the Manitoba Chapter of the Canadian Manufacturers Association and General Manager of Dominion Bridge Co. Ltd., - a new appointee.

Dr. Om. P. Tangri, Professor of Agricultural Economics, University of Manitoba - also a new appointee, and is present here tonight to assist me in some of the technical aspects of this paper, for which the technical members of the Board have played a prominent role.

Mr. L. D. Whitehead, Editor and Publisher of the Brandon Sun, and he is also a new appointee.

The first charge on the Board is to recommend priorities in provincial economic development programs. This means that we must have an appreciation of what constitutes economic development and how this differs from the narrower concept of economic growth. Economic growth in its simplest form is merely "more of the same" or, in more technical terms, rise in Gross National Product. For Manitoba, the equivalent is rise in Gross Provincial Product. If the Board were to be asked to recommend priorities relating to economic growth, and only economic growth, it would find difficulty in doing much more than discussing the rate of growth and what policies might be adopted to influence that rate.

The simple increase in GNP or GPP is the crudest measurement of growth, and more sophisticated measures - such as income per capita - are also widely used. However, in all cases, growth is associated directly with rising Gross National or Gross Provincial Product, either in total or per capita. But - and this is a crucial, critical point - while rising levels of national output and income per capita usually accompany economic development, economic development does not necessarily accompany rising incomes. Classic examples of this point have been some of the oil sheikdoms in the Middle East. With the discovery of oil, their rate of economic growth was fantastic until some achieved a GNP per capita greatly exceeding those of Canada, the United States, or any of the western industrialized countries. By no stretch of the imagination, however, could these "rich" countries be considered developed.

Economic development, therefore, must be conceived of as a much broader process, one result of which process is usually a higher command of goods and services on a per capita basis. Yet there are other equally important characteristics of the more developed economies. Without suggesting any ranking of importance, we would like to expand on some of the more significant empirical measures that have been identified as characteristic of the development

(MR. REMIS cont'd). . . process.

(a) Diversity and stability. The stability of an economy is usually (although not necessarily always) a function of its diversity. This is because the greater dependence on one product or industry the greater the destabilizing effects of a rise or fall in the demand, supply or price of that product or industry. This is particularly true where an economy becomes dependent on a narrow specialization of a single resource sub-sector. We need look no farther than our sister province, Saskatchewan, in the 1930's to see the devastating effect of reliance on one particular staple commodity - wheat. Manitoba with its more diverse agriculture and general economic base also suffered badly, but not to the same extent as Saskatchewan. Ontario, with a still more diverse economic structure, was even less affected. In general, the greater was the reliance on a single industry or resource the greater was the disruption and collapse. Examples could be expanded almost endlessly, but in terms of the old adage, it is hardly prudent to put all your eggs in one basket. Diversity in the economy, therefore, in long run economically viable industries, is necessary to produce the high degree of economic stability that is associated with economic development in a political economic unit.

(b) A significant share of "higher order activities". Since the concept of higher order activities may not be the easiest to describe, it may best be explained in the context of the stay option. An economy can be said to be more developed, all other things being equal, the more opportunity it offers to its labour force to realize its full creative potential. This means that the economy must provide employment opportunities other than as "hewers of wood and drawers of water". It must also provide opportunities in decision making, in research and development, in artistic and cultural affairs, and in the application of technology and specialized skills, or in broader terms, what we have here defined as higher order activities.

(c) Facility for adaptation and choice. It is normally considered a mark of underdevelopment when an economy is primarily export propelled. By this we mean the health and prosperity of the economy is determined by markets and decisions outside of the control or influence of domestic decision makers. At the extreme, one can identify the so-called one-export economies. Prime examples would be Cuba with sugar, Ghana with cocoa, and Bolivia with tin. Where these conditions persist, domestic decision makers can have little control over their economy, and without control there can be little scope for decisions on priorities. Any change in the external economic climate, therefore, tends to dictate priorities with the consequent political and economic upheavals. In a world of international, inter-regional and inter-provincial trade, no economy-national, regional or provincial - is completely autonomous, yet the degree of indigenous policy control is a legitimate measure of economic development.

(d) Full meaningful and productive employment. A standard characteristic of underdeveloped economies is a high level of under-employment and/or unemployment. Under-employment occurs when people are working at least part time, but at a productivity well below what they are capable of if other work were available. The most common examples are excess family workers in peasant agriculture and excess service and trade workers and family servants, working for extremely low wages, in the traditional underdeveloped countries. Raising the wages of these people under these circumstances merely results in the conversion of underemployment into unemployment. Chronic unemployment and under-employment are symptoms of many weaknesses in an economy, not least being the inability to change because of the underdeveloped nature of the economic institutions or because of the dependence of domestic institutions on external forces, decisions or institutions.

(e) High levels of health, welfare and education services. One of the most frequently used yardsticks of economic development are the welfare indicators such as infant mortality, availability of medical and educational personnel, and hospital beds, life expectancy, and similar indices of the availability of social services. It is often these measures that betray the lack of real development in countries or regions which by gross output measures may be characterized as high income.

MR. AXWORTHY: Mr. Chairman, would it be possible that rather than reading his already prepared paper, which runs to I think 14 pages, or 17, I'm afraid it will be at least another half hour to read, perhaps the chairman of this Board could simply review for us sort of the highlights of the report, and particularly give us an assessment of the kind of advice and recommendation deriving from the results rather than going through the philosophy and-- It's interesting, but I find I can usually read faster than I can listen, and I would prefer if

(MR. AXWORTHY cont'd) . . . Mr. Remis would just be able to address himself to highlights of his presentation and review some of the findings and recommendations of his Board.

MR. CHAIRMAN: Well of course, Mr. Axworthy, the Chair is at the will of the committee. It has been the usual practice in the past for the Chair to proceed by direction of the committee, and before you arrived it was decided that Mr. Remis would read his report. Now if the committee wish to entertain a change of . . .

MR. EVANS: Mr. Chairman, I would like to make this point. This report, this written document, represents the consensus of a number of people who have gone over it very carefully and they expect this report to be presented. Unfortunately they are not all here this evening, but people with diverse business backgrounds and diverse professional backgrounds have worked on it. I know it's sometimes a rather boring procedure to hear a report read which is also before you for yourself to read, Therefore I would perhaps have the concern that the board members themselves may feel a bit slighted and may not be happy with a resume, which may leave out one or two points that some of the board members felt to be rather important. I do know members that we have on the board are very experienced businessmen and they've got some pretty firm views on what they put down here. Now that's an observation.

MR. AXWORTHY: . . . appear to have been in the interest to have had the report distributed before we met this evening so we would have had a chance to read it in our own right and then be able to comment on it. I just feel that somehow at a time when we're supposed to be concerned with speed-up of affairs, to spend an hour listening to a recitation of a report is somewhat of a waste of time.

MR. CHAIRMAN: Once again, your opinions as a member of the Committee, Mr. Axworthy, are noted and the Chair will proceed as the committee so dictates. Is there a desire of the Committee to proceed?

MR. MCGILL: Mr. Chairman, if he sees an opportunity to paraphrase or to give us some summary of an area, why we'd be happy to have that.

MR. CHAIRMAN: Thanks, Mr. McGill. Mr. Remis.

MR. REMIS: I'm not sure where I left off.

MR. PAWLEY: I think it was Page 16, wasn't it? (Laughter)

MR. REMIS: One of the most frequently used yardsticks of economic development are the welfare indicators such as infant mortality, availability of medical and educational personnel and hospital beds, life expectancy, and similar indices of the availability of social services. It is often these measures that betray the lack of real development in countries or regions which by gross output measures may be characterized as high income. In a very real sense they measure the true welfare level in the community which average or total income levels do not, usually because of problems of income distribution and the lack of social infrastructure.

(f) A decrease in the disparities of income and wealth. One of the market attributes of underdeveloped economies is the wide disparities in income and wealth - I think that should be "marked" - between economic and social classes or strata, between rural and urban sectors, between geographical areas or regions, and between different industries and occupations within the economy. As development takes place, markets function more smoothly and mobility improves between labour markets, tending to decrease the income disparities and, over time, usually with the assistance of the elaboration of redistributive tax schemes, to moderate disparities in wealth. Obviously, the moderation of inequalities does not mean and has not meant the absolute equalization of income and wealth; nor is this at all likely the result of development in a market-oriented economy. Once again, this measure of development, therefore, is one of degree.

The fuller realization of these marks of development therefore must be our primary goal. Nevertheless, as the Board has pointed out in earlier reports, there can be substantive conflicts between some of these goals. As well, we shall emphasize that there are costs involved in attaining growth. These costs are now recognized to include such problems as pollution, urban congestion, rural depopulation, disruption of traditional communities and values, and the costs of providing new social infrastructure to service communities created in the process of economic change. It is the Board's position that minimizing these costs must be a priority in any policy matters. For example, we recognize that the relatively unpolluted natural environment in Manitoba has been, and continues to be, an important provincial asset, both for the welfare of residents and, in development terms, as an attraction

(MR. REMIS cont'd). . . to environment related industries such as tourism. The Board has maintained in the past that the protection of our ecological environment should be a major priority in economic development policy in order to maintain, undiminished, this real resource asset. We see no need to change our position.

It was in the pursuit of a strategy to avoid some of the costs associated with the rural-urban shift noted above that the Rural Development Conference was organized. The major concern of the Conference was the question of how to provide a stay option in rural Manitoba. The response from delegates was more or less predictable --higher prices for agricultural products to raise farm income to levels comparable with those in urban areas, a higher level of services available within a reasonable driving distance, and more diversity of employment opportunities. The difficult question is how to achieve these objectives which are, indeed, integral to our concept of a developed society. One problem, of course, is that, short of direct and massive subsidies, the province has difficulty in controlling farm prices and farm income for those commodities that enter a wider market. Therefore, to a considerable extent, the health of the rural sector is at the mercy of the world trend in food prices, which until recently has not been favourable to the prairie farmer.

Within the last two years the external economic climate has changed markedly, with both favourable and unfavourable effects on the Manitoba economy. It is probably useful at this point to review the provincial economy's performance over the last year in order to evaluate it in developmental terms.

The most important single influence on the course of the Manitoba economy in 1973 was the dramatic turn-around in agricultural prices. Overall for Manitoba, preliminary data show an increase in the index of agricultural prices from December 1972 to December 1973 of almost 25 percent. At the same time, total farm receipts were up 30 percent following a rise in 1972 of 28 percent, and the value of agricultural output in the last year rose 86 percent. By any measure, therefore, 1973 must be viewed as one of the better years for the agricultural sector of Manitoba. This relative prosperity cannot help but have a significant impact on the provincial economy and strengthen the stay option, providing of course that the higher farm income is stabilized in real terms at a more remunerative level than in the past. The problem is, and has been, that Manitoba and her sister prairie provinces have little control over agricultural prices and incomes. That means the general level of prosperity of the rural sector is largely determined by the state of national and international markets which fluctuate widely in response to world supply and demand conditions.

Let us look at the Manitoba situation more carefully. In 1973, while the value of all grain crops increased dramatically, the change in volumes of production was moderate, in some cases negative. For instance, wheat production in the province increased 16 percent but the value of the crop increased by 200 percent from \$121 million to \$360 million. The barley crop further exemplified this trend of increased agricultural crop values over and above the increase in production. Barley production dropped slightly from 85 million to 83 million bushels but the value of the crop increased from just over \$90 million to \$195 million, an almost 110 percent increase.

Increases in livestock prices resulted in a similar trend in total value of the livestock although the increases of value and production were not as great as in grain crops. Total livestock value rose from just over \$250 million to \$350 million, a 40 percent increase. The number of cattle increased by four percent while the number of hogs decreased by one percent, but the value of these cattle and hogs increased by 40 percent and 50 percent respectively. These same trends are visible in the other categories, namely sheep, dairy products and poultry.

On a more somber note, it must be recognized that agricultural prices, particularly in the United States, are softening. Livestock and poultry prices have fallen up to 25 percent. World grain prices have retreated considerably from the very high prices of last year. Of course world prices are so dependent on supply conditions that it is difficult to predict future prices with such low world reserves and uncertain harvests. Then again there is this year's moisture problem, and that must increase the uncertainty of the rural sector. We are aware of the attempts by producer marketing boards to dampen price fluctuations but while they may have some beneficial effects for the producer in domestic markets, they can have little effect in competitive world markets.

A second note of caution must be sounded in respect to the net income of the rural sector. While gross farm receipts have risen impressively over the last two years, so have

(MR. REMIS cont'd) . . . farm costs, and while it appears that in net terms there has been some improvement in real income to the farm sector, it is considerably less than is suggested by the gross increase in farm incomes and value of production.

In summary, then, it is clear that rising world food prices have had a significant effect on the Manitoba economy recently, and while we should not overestimate the improvement in net farm incomes, there has been a more healthy buoyancy in our rural sectors over the last year or so that has been absent all too long.

It is difficult, if not impossible, to separate out the influence on the rest of the provincial economy of the agricultural situation from the influence of other industries which have also shown considerable strength in 1973. Estimated gross provincial product increased 15.4 percent in 1973, slightly surpassing the national increase of 14.8 percent in gross product. A two-thirds increase in the value of primary production was the propelling force behind the provincial growth but, on further analysis, it should be noted that agriculture took a lion's share with an 86 percent increase in value of output, with mining second, showing a 30 percent increase.

Secondary industries also gained in gross value of production. Construction was up over 10 percent and manufacturing almost 25 percent. Tertiary industries which include retail trade, services, utilities, and transportation and communication, followed the general trend of increased gross product. Retail trade, for instance, grew by 14 percent.

These figures all show increases in gross production. They are important indicators if we can separate the real increase in production from the increase due to inflationary pressures. Inflation and its effects on the economy will be discussed later in this report.

We have been dealing with the increase in the value of goods, a quantifying measure, but for a true discussion of development one should attempt to measure the relative welfare of Manitobans. Unfortunately, no welfare index exists that adequately reflects our concept of economic development. Certainly the availability of, and access to, housing, medical services, education, cultural and recreational facilities are all important indices of the quality of life in the province but we have not had the chance to review these measures for this report.

However, one measure of economic health we have identified is full, meaningful employment. The labour force in Manitoba increased to 408,000 in 1973, up 12,000 from the previous year. The higher participation rate in 1973 was responsible for the larger than normal increase in the labour force. As has been the case in the last five years, the female participation rate continued to climb, reaching 40.4 percent in 1973, up from 38.4 percent in 1972.

A most encouraging sign was an impressive increase of 14,000 in the number of employed. Employment increased in the services, trade and manufacturing sectors while it remained relatively stable in finance, construction, utilities and overall public administration. Indeed, labour shortages occurred in many occupations in Manitoba in 1973. Chronic shortages were reported in certain occupations in the metal trades, restaurants, office workers, the garment industry, mining and nursing.

The increase in the number of employed was greater than that of the labour force. Therefore the number of unemployed decreased from 18,000 to 16,000. As a result, the unemployment rate fell to 3.9 percent from 4.5 percent in 1972. But unemployment and under-employment continued to be a serious problem in some northern and isolated communities.

Most of the employment gains were in those sectors where traditionally there has been a high proportion of employees without a primary attachment to the labour force. This group of workers, sometimes referred to as the secondary labour force, tend to move with comparative ease in and out of the labour force in response to job opportunities. As a result, these sectors, for example the service sector, tend to be characterized by low wages, unstable employment and little labour organization. The primary labour market offers less employment opportunities but higher wages, stable employment and greater market control.

This trend to duality in the labour market continued through 1973 and probably accentuated because the service sector received on the average only a relatively small wage increase of 4.4 percent compared to over 9 percent in the construction and finance, insurance and real estate sectors. Manufacturing and transport employees both won wage increases of over seven percent. The cumulative effect of these increases was a greater inequality in the distribution of income.

(MR. REMIS cont'd)

Despite the generally improved performance of the provincial economy in 1973 there are problem areas. One has been the shortages of certain type of labour that have been noted previously. It is partly in response to this problem area that this Board plans to carry out over the next year a major evaluation of the labour market. There is no need to belabour the other major "shortages" problem, that is of energy and certain intermediate goods such as steel, plastics, resins and some types of wood products. But while these inputs were in temporary short supply, the longer term problem will almost inevitably be translated into rising prices of these intermediate commodities.

The rise in prices of intermediate goods is but one part of the most pressing contemporary economic problem -- rising prices, or as it is more generally referred to, inflation. Since inflation does bulk so large in any projection or evaluation of provincial economic performance, it is worthwhile directing some considerable attention to it in this review.

It has been customary, since the Second World War, to think of inflation as resulting from an "overheated" economy. In simple terms, this means that demand for goods and services exceeds the supply of goods and services and, as a result, prices are bid up. The standard policy prescription for government, therefore, was to attempt in the short run to dampen demand until supply in the longer run could catch up. Dampening of demand could be implemented by increasing taxes, decreasing government expenditure, increasing interest rates, etc., the standard monetary and fiscal package familiar to most of us. Indeed, this was the policy that the Federal Government adopted in the early 70's when the Canadian unemployment rate reached unacceptable rates of about seven percent (seasonally adjusted). Yet the rate of price increase showed little sensitivity to the recommended set of anti-inflation policies.

Since the early 1970's, with the reversal in federal policies, the unemployment rate across the country has fallen. Manitoba has one of the lowest rates, and if some reports are accurate we are facing bottlenecks of zero unemployment in selected industries. The fact that in February of this year we had a reported 3.9 percent of the labour force unemployed, even if part of that percentage was due to statistical measurement problems, indicates some structural maladjustments in the provincial labour market, although less serious than in most other parts of the country. The question of whether the province could or should attempt to lessen these maladjustments is one to which this Board will address itself over the next year.

But while unemployment appears to have yielded to the change in federal policy and presumably also to provincial employment policies, which we have not yet had the chance to review, the inflation rate has risen dramatically. It is somewhat comforting to be able to report that, relatively, Manitoba has fared somewhat better than other provinces in terms of inflation as well as in unemployment, but inflation remains the most serious cloud on the provincial economic horizon. What then, if anything, can we suggest to you as priorities in meeting this inflation threat?

First, it is instructive to look at the Consumer Price Index and to break the price index down into its components in order to see where the major inflationary pressure is manifesting itself. Since figures are not collected for the provinces, we have no Manitoba-wide picture. However, price statistics are collected for Winnipeg; therefore we will base our analysis on these. It should also be noted in passing that the Manitoba Bureau of Statistics is initiating collection of price data for other areas of the province but these data are not yet available.

Using Winnipeg figures, then, we find the following: Fifty-five percent of the increase in consumer prices is due to the food component. Housing places a distant second, accounting for 17 percent of the increase, followed by clothing at 11 percent, recreation and reading at 7 percent, health and personal care at 6 percent, transportation at 3 percent, tobacco and alcohol at one percent. The pattern is consistent across the country. Food has been the predominant inflationary source followed by housing. This poses an interesting dilemma for Manitoba. Our rural sector is undergoing a relatively prosperous period because food prices have been rising, but, on the other hand, rising food prices are our biggest problem.

There is no question that Manitoba is all but powerless to affect world food markets. This means that any attempt to control prices would, in the absence of subsidy programs, lead only to shortages. This assumes, of course, no changes in the margins between the primary producer and the consumer. It is true, of course, that only a part of the Manitoba

(MR. REMIS cont'd) . . . consumer's food dollar is spent on food produced in Manitoba, but the food price phenomenon has been world-wide, reflecting real commodity shortages. Manitoba, therefore, being a net food exporter, both gains and loses as a result of rising food prices. This is not to deny that there are many people in the province who have suffered a major drop in real income as a result of the rise in the cost of food, but it does suggest to us that the government's first concern should be to protect the real standards of living of those on small, fixed incomes. We have not yet had the time or opportunity to study indexing as a method of lessening the impact of rising prices on the welfare of this group of people, but it is one of the policy tools that could be looked at.

It does not appear likely that, barring major crop failure, the 1973 pattern of increase in the Consumer Price Index being more than half accounted for by food, will continue. Obviously the rising price of fuel will also enter almost everywhere as a cost item. Most industrial commodities such as steel are in short supply and prices are rising. The conclusion from all this is that, for the most part, the inflationary pressures lie outside the Manitoba economy, indeed outside the Canadian economy, and it would be pointless for Manitoba to attempt a frontal attack on the problem. The major priority, therefore, must be to minimize the disruptive impact and to lessen the distributive inequalities that have resulted.

There is one significant sector where the province can have and has had a substantive influence. This is, of course, housing where the largest single inflationary element has been spiralling land prices. It is interesting to note that, relative to other major cities, Winnipeg's housing index has risen much more slowly, at least until recently. This is partly attributable to the slower growth rate in population in the metropolitan region. Undoubtedly it is also reflected by the number of units provided by the Manitoba Housing and Renewal Corporation. In any case, the only defence against inflationary rises in housing prices is increasing supply. In priority terms, therefore, this means ensuring that increased amounts of serviced land are available to the housing market.

In the service and trade sector, the largest part of value added is labour cost. Inflation in these sectors' prices represent to a great degree increased wages. Therefore, any prescription for reducing price increases for services would involve a reduction in the real wages of those workers relative to the rest of society and, as we have already noted, these people are on average already the lowest paid segment in our economy. In short, Manitoba does not have in its hands the tools to take on the world-wide inflation whose cause is partly rooted in real commodity shortages, a fact that has contributed to rising farm incomes in Manitoba. We would therefore suggest that the province's attention would be best concentrated on those areas where it can have some effect and try to lessen the impact on those who can ill afford any decline in real income.

This brief review of 1973 obviously raises many issues which we are unable to comment further at this time. However, the Board has adopted a tentative research and review program that should provide new insights into these problems before our next presentation in one year's time. At the moment, the Board has decided that its first primary objective is to provide an independent evaluation of problems and programs in selected areas of provincial economic development. With this in mind, we intend to greatly extend our provincial economic review both in depth and in time, so as to provide a medium term report on the economy in the recent past, the present, and with some projection to the future. In this exercise we will continue to look at inflation and its impact on Manitoba, and consider proposals that might be beneficial to counteract the existing and anticipated costs of rising prices. As well, a priority in any assessment must be balanced regional development.

Supplemental to this, we intend to initiate a general evaluation of manpower programs, problems and policies. In part this will be designed to provide information to improve co-ordination between governmental agencies and departments. We hope, as well, that the private sector will have a significant part to play in the evaluation, particularly in respect to the question of bottlenecks in the availability of certain types of skilled labour.

We have a particular interest in promoting some specific studies that we consider of considerable importance to the evaluation and implementation of provincial and regional development strategies. Two studies that we should mention at this time are a study of the size and composition of Manitoba's exports and imports, and a study of transportation programs and their relation to prices and economic development in the northern part of our

(MR. REMIS cont'd) . . . province. Since the Board itself has limited staff resources, it plans to co-operate with and supplement ongoing government studies rather than attempt to cover all areas itself, thereby risking duplication and superficiality. Indeed we foresee the Board participating in the co-ordination of economic research across as broad a range of the government service as the limitations of our staff resources permit. Discussions about where the Board can make its most significant contribution are presently under way with other branches and agencies.

Our second primary objective is to promote two-way communication between the private sector and the government. In the past, one major effort in this regard has taken the form of an annual conference on a select topic in regional development. We expect to continue this practice early in the next year. In addition, we intend to sponsor or co-sponsor a number of smaller seminars relating to aspects of our manpower evaluation program and our general review of the Manitoba economy.

It is obvious that someone else looking at the contemporary problems of the provincial economy might decide that some other areas should receive intensive study by the Board. In fact, we did not consider a broad range of subjects which we felt could benefit from our consideration, but given the limitations of staff resources, we decided that the above items should receive priority attention. We intend to broaden our work as time and resources permit.

This concludes my report.

MR. MCGILL: Mr. Chairman, I'd like to thank Mr. Remis for the report of the Advisory Board. It is a fairly complete analysis of the economic condition of the province at the moment. It is, however, in somewhat different terms than I had expected. I rather thought, Mr. Remis, that you might have included here some more specific advice in practical terms to the department in respect to the priorities which they should be observing in the next twelve months.

In looking over a previous report I note one paragraph that states that - and this was in June/72 - one particular requirement, meaning requirement of the work of the Advisory Board, was "that we review the the operation of the Manitoba Development Corporation from time to time. This review is now in progress." I had hoped that perhaps that review might have been presented to us. Have you any information to give to the Committee on any review of the operations of the Manitoba Development Corporation?

MR. CHAIRMAN: Mr. Remis.

MR. REMIS: I should point out that some of the work that the Board does is public, such as our report today; some of the work that the Board does at the request of the Government is private to the Government, and that there has been a report to the Government on the MDC, which the Government in its wisdom will release or not release.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Well, I just took from this particular part of the report that there would be some follow-up to the rather intriguing and interesting statement that they were in the process of reviewing that operation, and you are going to leave us hanging in mid-air here and not give us anything further on that?

MR. REMIS: I'm afraid at the moment that's about all I can tell you, Mr. McGill. I know the report was done and I know it was given to the Government.

MR. MCGILL: Does the report for last year, which you've said that you had available - although you haven't it here tonight - does that contain any indication or any more specific recommendations on the priorities of the Department of Industry and Commerce than you have provided for in this report tonight?

MR. REMIS: I think I'd like to differentiate between this report of the Economic Development Advisory Board and the Department of Industry and Commerce, of which I also am an administrative officer.

MR. MCGILL: Yes. Well - excuse me, Mr. Chairman - this is an interesting report of what you are prepared to do in the way of research in the future. I had rather envisioned that you would be coming here tonight with some specific recommendations from the committee and using the varied experience of the members of the committee to suggest specific guidelines. I think that happened back in 1970 and '71 when Dr. Kristjanson suggested certain areas in the economy that lent themselves to expansion - he mentioned food processing and the processing of natural products - areas in which there should be some direct emphasis by the Department of Industry and Commerce. Now that trend has not continued through this

(MR. MCGILL cont'd). . . report and I'm wondering why.

MR. REMIS: Well, I think any report on the department should really be referred to the Minister, who is quite aware of what the department has been doing with regard to those items in Mr. Kristjanson's report, and I don't really think I ought to comment on that at this time.

MR. MCGILL: Mr. Chairman. Well then, to be very direct about it, Mr. Remis, does the fact that you are a Deputy Minister in the department make it difficult for you to objectively bring advice to the department?

MR. REMIS: No. I've wrestled with that topic myself, as you're well aware, and I note that Mr. Kristjanson is also a civil servant, a senior civil servant in the government, as I am. I have communicated with other Economic Development Advisory Board people and I find that their chairmen are often civil servants as well. I think that my vantage point is really helpful to the Economic Development Advisory Board in directing their research programs into those areas in which even the department, with its more considerable resources, often isn't able to do because of its day-to-day needs. Now this may apply to other departments as well; consequently I feel that this gives me an opportunity to tackle some of the broader range problems rather than the more specific ones - and if you will note some of the things that we have already indicated that we'd like to do for next year, given the resources we have, such as an evaluation of the manpower programs in a macrosense, identifying what seem to be anomalies in the system:

You have a low unemployment rate and yet you have structural unemployment in areas. Now let's take a good look at this and perhaps indicate to other people what ought to be done to rectify this situation. Nobody that I know of in the system has really looked at the provincial economy in even a short-term historical sense, that is since the last five or six years, and evaluated in terms of where we were and where we've been, where are we now and where are we likely to be in the short term future. I think forecasts are difficult in themselves and if you try to go too far you could really be out on a limb. I think stimulating the Bureau of Statistics to come out with some data such as developing or examining Manitoba's trade balance, exports and imports, will give us a better measure for the department and for others to evaluate both the strengths and the weaknesses of the economy and what can be done about overcoming some of these weaknesses, and how do we build on some of these strengths.

The problems of the North; transportation, and the influence on prices. Now not much work has been done in these areas, not because people aren't aware of them, just somehow line departments, like mine, find themselves so caught up in the day-to-day things that sometimes standing back becomes a difficult thing, or not even the ability you have, you don't have the time to do those things. The Economic Development Advisory Board can do that and I'm in a position to help them see the route and help to channel their efforts.

Now, communicating with the private sector is something that we do all day long every day, but there are certain levels of communication that we can't get at, and I think the development of holding these national conferences and seminars on selected papers, such as perhaps distributing this paper to a selected group of people and having them come down and tear this thing apart or talk about it, will be a useful function. So that over-all I think that I can wear the two hats comfortably, direct the efforts of the Economic Development Advisory Board and at the same time the departmental activities.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Mr. Chairman, again, Mr. Remis has explained his position and he's apparently satisfied with this, but I put it to him: Don't you find it rather dull presiding over a committee and writing yourself letters of advice on how you should direct your department? Isn't this a kind of closed circuit? Wouldn't you prefer to have someone remote from your own thinking as chairman of the Economic Development Advisory Board, so that you might argue with him a bit? It's no fun arguing with yourself, really, is it?

MR. REMIS: Well, the report that I read today is really a consensus of a fairly broad-ranging group of people - incidentally, I might introduce Mr. Leach, who is a director of the Board, who has come to participate in this meeting - that it is not just my opinion that is being read here today but the result of the research of the Research Director and the consensus of opinion of the rest of the Board. So that, I don't know, it may be unlikely that I find myself being highly criticized by my own people at some future time, but that could happen.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Thank you, Mr. Chairman. I'd like to pursue two or three lines of questioning and one would just be the follow-up on Mr. McGill's concern about really the lack of independence that this board has, because of the close connection it has with the department whom it's advising, and I was wondering if they had considered, for example, the model of the Economic Council, which works on the federal level as a totally independent board. While appointments are made to it by the Federal Government, there is no connection between it and civil servants, and it is able to provide an annual economic review which often-times is very critical of the government. And let me put a question to you this way. This report, as you read it and I've read it, is singularly lacking in any particular area of critique of the Provincial Government, and while I know that they are exemplary in so many facets of their activity, it strikes me that they can't be that good, and I do think that the fact of the lack of any kind of criticism in the report is a product of the fact that this Board is too closely tied in with the Government.

MR. CHAIRMAN: Mr. Evans.

MR. EVANS: Mr. Chairman . . .

MR. AXWORTHY: Well, Mr. Chairman, is it possible for Mr. Remis to answer the question?

MR. EVANS: Well just as a point of information, as one who is part of the Government and has passed the O. C. , it was not the intention of the Government, nor has it ever been, to have the Board confine itself strictly and narrowly to the operations and policy objectives of a particular department. The spectrum of economic development involves many departments. It probably involves every department, including education and health. These all have a role to play in this very broad subject. So really, as much as Mr. Axworthy's comments are rather flattering of the Department of Industry and Commerce, I would submit that we are playing but one role in this whole process. To the extent that government can play a process in economic development, we are only playing one role. The Department of Education plays a very vital role, the Department of Agriculture plays a role, the Department of Municipal Affairs plays a role, and so forth.

MR. CHAIRMAN: With that clarification, Mr. Remis, would you like to answer Mr. Axworthy's question?

MR. REMIS: I don't see how I can answer it any differently than I answered Mr. McGill.

MR. AXWORTHY: Well let me put the question in a straightforward way. Would it be a more effective operation of this committee if it was entirely composed of individuals who did not earn their keep as civil servants of a government to whom they are supposedly reviewing and assessing the activities of that government, and it was a completely independent board on economic development?

MR. CHAIRMAN: Mr. Remis.

MR. REMIS: You know, it's one of those questions: "I'm damned if I do and I'm damned if I don't." How can I argue about complete objectivity without recognizing that nothing can be completely objective for anybody?

MR. EVANS: Mr. Chairman, on a point of order, I think in a way that is an unfair question, because if there is a question or if there is a criticism, you know, it should be really directed at the Government, not at the board or the board chairman who has been appointed by the Government.

MR. CHAIRMAN: Order please. I was very careful in attending to the words of Mr. Axworthy's question and I would rule the question in order. He asked for an expression of an opinion, and Mr. Remis can either express that opinion or not express the opinion, and the interpretation is a matter of debate. I was very careful to listen then to Mr. Remis' answer to the question. Mr. Axworthy.

MR. AXWORTHY: Well, maybe just to carry on that line, Mr. Chairman, I'd like to again say, where in the province are other sources of independent evaluation of the economic performance of the province available, if not presumably from a board that has some staff resources, as yours does, to do this, and therefore by the fact that there is some connecting links primarily through your own position? Are we totally devoid then of any independent source of review and assessment on an annual basis of economic performance, one that we can assume is not just objective but independent in its point of view?

MR. CHAIRMAN: Mr. Dillen on a point of order.

MR. DILLEN: On a point of order, I think what Mr. Axworthy is suggesting here is that when I go through the list of names of the people who are involved in this committee I

(MR. DILLEN cont'd) . . . find Professor Paul Phillips of the University of Manitoba, and I know that Mr. Axworthy is also connected somehow to the University of Manitoba, and if he's suggesting that he is using that as being controlled by the Government, I would have to question his line of questioning.

MR. AXWORTHY: . . . he's on a leave of absence.

MR. DILLEN: Not only that, but I find that we have also Mr. Leach, who is of Federal Industries Limited, Chairman of the Board, and I wonder what kind of control the Government is influencing over him. And I suggest that there isn't any or he wouldn't be on that board.

Another name I find is Mr. Ebborn, who is of Dominion Bridge Company, and the list goes on to another Professor of Economics at the University of Manitoba, Agricultural Economics, and the Publisher of the Brandon Sun, you know, and I only find one connection and just one person who is directly related to Government in the form of Mr. Remis. And I can't see how you can possibly consider that this Board is not acting independently of government by just going by the names that are listed as board members. So that's the point I wanted to make.

MR. CHAIRMAN: Well I understand your point, Mr. Dillen, but nevertheless the question I accepted it, and having accepted it I didn't question the question being in order. Now, Mr. Remis can answer the question in any way he so chooses. And if we want to debate the efficacy of governmental approaches after receiving the report of the Chairman, I suggest that we enter into that area. Mr. Remis. Then perhaps Mr. Axworthy would rephrase his last question.

MR. AXWORTHY: I just somewhat lost the train after that very extended point of order, Mr. Chairman, the statement of point of order.

I would just again, and I'm not being critical of the individuals on the board, I'm simply saying that I think in this day and age where it's very important that we have good in-depth, independent critique of economic performance, I'm really saying as to whether the model that has been applied in the federal level where the economic council is, doesn't have the kind of governmental connection that your board has, whether in fact it would be preferable to have it, or are there other sources of that independent economic critique available to us, so that we are able to provide --(Interjection)-- That's both opinion, Mr. Chairman, and information.

MR. CHAIRMAN: Here again there is some statement in your question also. The statement being in whether Mr. Remis would prefer, or has some observation to make on your statement. Mr. Remis.

MR. REMIS: Well, Mr. Axworthy has raised a difficult question and one that the Economic Council of Canada, and I just met with the Chairman on Monday, and also the Chairman of the Ontario Economic Council, and we discussed this very problem: How can a government, a quasi government agency be critical of government, be independent of government? We all recognize this problem, and we're thinking seriously of it and this, hopefully, we will be able to meet very shortly and develop some kind of an answer to this question. I don't think it's an easy answer. I don't think you're looking for an easy answer. . . . citizen advisory boards critical of government policy, or should they be critical of how governments try to attain their policy of genuineness. There's a difference. We can be quite, I think, quite free in trying to assist the Government to obtaining its objectives in all honesty, whatever the Government of the day is. I don't think that a board of this kind should really be critical of government policy because that is a matter for the government to decide, and if the board wants to be critical of Government policy then it should get out of the board and get into the political arena, where it really belongs. So a body of this type seems to me should strive to assist the Government to achieve its objectives in the most professional, the most objective, and the most independent way that it knows how. Now some of that criticism needn't be made public. It doesn't always have to be public, it can be quite private.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Well, Mr. Chairman, I think that goes to the centre of the question I'm trying to raise, that to use, for example in your report you raise two economic areas where you comment that obviously some difficulties have occurred: One in the manpower field, there have been - I think your word was there has been sort of blockade or something in the manpower field. What you don't say is whether that is a consequence of government

(MR. AXWORTHY cont'd). . . policy or not.

Second, in the area of housing and land supply which you say is again a major factor conveying to function. The conclusion is you make no comments to whether again that is a product of either errors of omission or commission by different members of the Government. Now is that because you feel it's not in your rein or your area to comment upon, critically upon the performance of government, and therefore are we not able to ask you questions about whether in fact certain kinds of public policy either have had deleterious effects upon these two critical areas of labour management and . . .

MR. REMIS: I think you answered the question. I agree with you then.

MR. AXWORTHY: Well let me ask first then, did you therefore avoid consciously commenting upon public policy in this area because you don't feel that's part of your mandate?

MR. REMIS: That's right.

MR. AXWORTHY: That's right? Okay. All right, okay. Mr. Speaker, I don't want to dominate. I have two other supplements of questions to raise, but I'll let other members - perhaps I can come back to them if other members want to pursue this line of thought.

MR. CHAIRMAN: Mr. McGill - is there anyone else that would like to question Mr. Remis. Mr. McGill.

MR. MCGILL: Mr. Chairman, I note from Mr. Remis' explanation now that perhaps the terms of reference of the board have changed, because I recall in 1970 or 71 the board was critical of the Department of Industry and Commerce for getting involved in a certain industry, which they felt was not a good area and a productive area, i. e. aerospace. And so this was an objective report, and it differed with government policy, and it was a point well taken as subsequent events seemed to prove. But I understand from your explanation now that we will not have the benefit of that kind of confrontation in the future, that this will be really a re-work of either supportive of the policies of government, or a research effort on the part of the Advisory Board to supplement what is going on in the Department of Industry and Commerce. Now I don't think we need to belabour the point.

Just one final question. How many meetings of the Advisory Board took place in the preparation of the report which we got here tonight?

MR. CHAIRMAN: Mr. Remis.

MR. REMIS: I was appointed Chairman, Acting Chairman, the last week in February, and we've met three times as a board. Our first meeting considered programs; our second meeting considered the outline of this report, the third meeting considered the first draft of the report. So in the three months we have met three times.

MR. CHAIRMAN: Mr. Evans.

MR. EVANS: Mr. Chairman, I'd like to make an observation as the Minister responsible just in case there is some misimpression left with members of the Committee. The terms of reference of this Board has not changed, have not changed since it was established, and reference is made to the two items, to the key terms of reference in the report by the Chairman of EDAB, and it relates to priorities. They are to recommend priorities for development, and also to make suggestions how to stimulate and co-ordinate public and private activities, and so on. You can read it for yourself. And I think those are pretty broad terms of reference and it does leave the board -- and I as the Minister, I would hope that the Board if it has some critical comments to make about the Department of Industry, or the Department of Agriculture, or whatever department, would do so. I would . . . it to do so. And I would hope all members of the board feel free in that respect. The board's terms of reference have not been changed by the Government and as far as I'm concerned we expect it to carry on in its analytical and critical role that it has played in the past.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Well, Mr. Speaker, I'm glad to hear the Minister say that in fact he expects his board to be a critical agent in the future, and I would only comment that this present report does leave something lacking in the sense that it does raise problems but doesn't carry through any analysis of the public policies relating to those problems in the areas. And that's one area if I may, Mr. Chairman, I'd like to pursue, particularly in the two areas, key areas, which are within the provincial jurisdiction that the report raises.

First is in the problem of labour shortage, and as the Chairman of this board well recognizes there was some concern over the past three or four months about the problem of

(MR. AXWORTHY cont'd) . . . labour shortage, particularly in the garment industry in the province, and the fact that it appeared that public policy of the Provincial Government was generally negative towards promoting manpower labour policies to support the growth of the garment industry, because it was I gather a low wage, considered to be a low wage industry. Now in the position of the board itself, is it your assessment that the lack of growth in this particular area is attributable to the public policy of the Provincial Government in not promoting a manpower policy to bring sufficient workers into the industry?

MR. CHAIRMAN: Mr. Remis.

MR. REMIS: I'm having difficulty with your question because really it's a series of questions. Government policy regarding the importation of immigrant workers into the - is government policy, and one which I'm not in a position to argue with, as I indicated to you a moment ago. Whether that is contributing or not contributing to the growth of the industry, I am really in no position to give any comment at this moment. I don't think we're in possession of the data or the facts to know to what extent the growth of the industry is inhibited because it's unable to attract low-wage people. As a matter of fact one wonders what would happen to the industry if it suddenly became a high-wage industry, whether we would still be in a position where we would want to import other outside . . . I don't think we know too much, enough about available labour pool in Manitoba, its character, the resources that are available to train it so that it would fit in a preliminary, at the lower level of the wage of the labour market. I think this is one of the things we want to take a good hard look at next year, as I've indicated before.

MR. AXWORTHY: Mr. Chairman, may I interrupt.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Mr. Remis could you, through the Chairman, say that then it is your intention under the mandate next year to examine specifically the manpower requirements of the garment industry in the province, and to see how that may be eased or satisfied to provide for a proper growth of that industry?

MR. REMIS: Right. I'd say that in our study of the manpower situation, and existent government policies will be examined, and the industry itself will be examined, and perhaps we may come up with an answer next year. I have no guarantee.

MR. AXWORTHY: But it is your intention to study that industry and prepare. . .

MR. REMIS: Well we'll study that industry and other of the labour intensive industries, which we've pointed out in this report that are really not keeping pace with the general increase in wage levels, and really falling further behind all the time, and this is an undesirable effect in the economy and one we would like to correct. Now what suggestions and what recommendations we're likely to make a year from now, I'd hesitate to make. I certainly would like to turn the economists loose on this subject, and related subjects in manpower, not only here, not only in the garment industry, but in other of the service industries, other low wage industries, other structural unemployment in the province, and perhaps we'll have an answer for you next year. No promises.

MR. AXWORTHY: No. Without extracting a promise from Mr. Remis, Mr. Chairman, I'd just like to confirm though that we could expect in his report next year not only an assessment of that manpower issue, but also of the impact that public policies carried out by the Provincial Government, and Federal Government for that matter, have upon the supply and provision of manpower for these key industries. Is that a correct statement of your intention?

MR. REMIS: I would say that we would be looking at the garment industry with other industries. Whether we look at it specifically in addition, and taking a harder look at it than in other areas, I would leave to the board to decide, and knowing the resources we have and the priorities we have for ourself, I wouldn't like to make a commitment now to you on that, that I'd have to live with.

MR. AXWORTHY: Mr. Chairman, may I pursue one other line of question before continuing? Another substantive area, Mr. Chairman, that was raised in this report is in the area of housing and land supply.

MR. REMIS: Well we did raise a few sensitive areas didn't we?

MR. AXWORTHY: Yes, you did. More than a few but those two . . .

MR. REMIS: I don't think that we pulled too many punches.

MR. AXWORTHY: Well except this, Mr. Chairman. I again come back - but somehow in this field again of housing and land supply it is an area which is, I think Mr. Remis and I would agree, is an area particularly sensitive to government direction, that both municipal

(MR. AXWORTHY cont'd). . . and provincial governments have a predominant role in the determination of that supply through the policies and regulation that they follow. I am again concerned, and also somewhat intrigued, by the seeming fact that the sentence was never completed in your report, that while you identify the problem that the shortage, not just for residential purposes but also for industrial purposes, in the City of Winnipeg where we almost are virtually without land for industrial purposes in the city, again there is no comment upon the present efficacy of public policy in that respect and how that may be altered and then go on not -- and as I gather you have no intention to study that problem as part of your mandate in the next year.

MR. CHAIRMAN: Mr. Remis.

MR. REMIS: Well we had a list of about seven or eight topics that we thought were urgent enough for us to want to look at, and land was one of them. We recognize it's important because, as we pointed out in the report, that it was the next highest contributor to our inflationary cycle, like the food, and a substantial one, 17, may 20, maybe 25 percent next year - who knows how things are going? But the board in its wisdom having looked over the range of subjects and the amount of resources, and they are extremely limited as you well know, we decided that this was one topic that we would not pursue in detail, not because we don't recognize it as an important item, and only because of our resources. Now maybe in the following year, maybe the urgency, somewhere half-way through the year we may decide that notwithstanding we better take a good hard look at this before the next board; we probably will, but we are aware.

MR. AXWORTHY: Well, Mr. Chairman, if I can ask Mr. Remis this through you. Presumably you did some analysis of the problem, otherwise you wouldn't have mentioned it in your report. Would you say on a basis of that analysis that present public policy, on both provincial and municipal levels directed towards land, is effectively responding to the problem of inflation in land prices at the present moment, or is there a requirement for major changes and alterations in that public policy?

MR. REMIS: No, Mr. Axworthy by definition I can't answer that question.

MR. AXWORTHY: Well, Mr. Chairman, the Minister has said previously that the Board can be a critic in observation, and therefore I'd like to know why we can't answer that question. Is it lack of . . . Pardon me?

MR. REMIS: Not right now I can't.

MR. AXWORTHY: Is that simply because you don't have the information or analysis available? Is that the reason, or just that you don't want to answer it?

MR. REMIS: Well I think, my own personal terms of reference which stem from the reference there, I think preclude me for commenting on government policy.

MR. AXWORTHY: So we're back around the circle again.

MR. EVANS: Mr. Chairman, if I may just interject, just as a matter of clarification. As I said earlier the report, as I understand it, and I have just gone through the report with the members myself and have noted that the report tends to be a bit different from the previous reports, which tended to be more specific and referred to very particular industry groups, or particular individual industries, but having said that, I just wanted as a matter of clarification to point out again that the report is a report, as I understand it, of a consensus of the group and, you know, they in their wisdom decide to follow one course or another. Now I'm sure the Chairman, and through him to the Board, they may be prepared and probably would be prepared to entertain questions of the MLAs either now, or, you know, during the course of the year, you wish to put for consideration and independent observation. But I think in a sense you're putting the chairman on the spot, because you're asking for his personal opinion each time when he's endeavoured to give you the opinion of a group of businessmen and a group of university professors.

MR. AXWORTHY: Well, Mr. Chairman, perhaps I can speak to the point of order. I'm not trying to press Mr. Remis as Mr. Remis, or concerning his own personal opinion. I asked the question in this way, that as Chairman of the Board, having been party to the information and also as derived by the research staff, and being the spokesman for the group of members of this Board, during their discussion they must have discussed more than simply the fact that inflation - and that is a problem - they must also have asked the question why, and I was simply asking, in the deliberations of that Board and the information that resulted, were they able to derive any assessment of the present effectiveness or lack of

(MR. AXWORTHY cont'd) . . . effectiveness of public policy in this area, so that presumably their wisdom could be passed on to us so that we might take some action upon it, which I would think would be the proper functioning of a board such as this.

MR. CHAIRMAN: Well, to the point of order. Mr. Axworthy asked Mr. Remis a question and Mr. Remis answered the question. Now whether the answer is satisfactory or not to the committee is another question. It's a matter of debate . . . so that while I appreciate the point raised by the Minister and also by Mr. Axworthy, nevertheless under the rules of our procedures, you know, in such presentations such as this the responsibility of the Chair is to allow a wide latitude to solicit information, but nevertheless once the question has been answered, the reason for the answer is totally irrelevant, you know, because this particular question was whether, in the opinion of Mr. Remis, the effect of government policy relative to housing was or was not having an effect on housing, and he chose not to answer that -- why he chose not to answer.

MR. AXWORTHY: I have just one other small question, Mr. Chairman, I am sure Mr. Remis will be able to answer without any equivocation, and I'd just like him -- I gather from the thrust of your report that because of the present interest in the topic under discussion of inflation, your conclusion is, at least for the Province of Manitoba, a program of wage and price controls would be of no use or in fact would be destructive or detrimental. Is that correct?

MR. REMIS: I am always skeptical when people say "I have a small question." I don't think I can answer that question whether wage and price control is the answer to inflation. I don't think anybody can answer that question.

MR. AXWORTHY: Well, Mr. Chairman, I'm just deriving from the comments on the report, I believe on Page . . .

MR. OSLAND: The voters will answer that question.

MR. REMIS: That's true.

MR. AXWORTHY: Well it's true, but I'm just trying to get again the wisdom of this assembled group of cross section of the public that you have derived the basis of analysis for, and I believe you say that because of food and housing and a few major components of inflation, food in particular, that is not susceptible to controls, is that the assessment of the Board, in fact a control situation would not work in this case . . .

MR. REMIS: No, we're saying that certain aspects of indexing should be looked into because there is a sector of the community that are helpless in the face of inflation, and although the governments, even Federal Governments find difficulty in coping with . . . there is a responsibility to do something about those people on fixed incomes and low incomes. Now maybe indexing is the answer to that but we're prepared to study it. I would feel more comfortable if we had had a year under our belt of operating at the level on which we intend to operate next year. Hopefully, if I'm here to answer your questions next year, I can be more explicit, but I think in the main, what we really try to indicate is that the area that we intend to probe into now may not be the ones that you would pick, Mr. Axworthy, but they are the ones that the Board thinks is what is important to it. Also pick these subjects as they think they are high priority and they've had to limit the number of subjects because of the resources that we have. Free people, you know.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: . . . then I will be quiet. Not only that, because I haven't had dinner yet and . . . In that case, perhaps I could direct a question to the Minister, who I gather here is in a consulting capacity to the committee. Is the Minister therefore prepared to offer more resources to this Board so that it may widen its scope and address itself to more of these high priority questions, so that next year we're able to gain answers on the broader range and in more specific form?

MR. CHAIRMAN: The Minister of Industry and Commerce.

MR. EVANS: Mr. Chairman, I understand that a new . . . director - is that his title?
Or . . .

MR. REMIS: Research Director.

MR. EVANS: The new Research Director who is on leave of absence from the University and is an economist, has obtained the services of two assistants for at least a period of time, if not for the next year, so the staff resources have been tripled as such. I must add also, Mr. Chairman, there has been some disruption of the work of the Board partly because of the involvement of the former chairman in some critical problems that arose in the question of

(MR. EVANS cont'd) . . . milk control, milk supply in this province, and eventually of course he moved over entirely to Agriculture and there was a bit of a lapse in it, so our new chairman and some of the board members are perhaps at a disadvantage because they're relatively new in this particular area.

I would be delighted incidentally - this is completely out of order, Mr. Chairman - but I'd be delighted to give you an opinion on price controls any time.

MR. AXWORTHY: I was asking Mr. Remis.

MR. CHAIRMAN: There being no more questions, we will hear from McKenzie Seed. Oh, Mr. McKellar. I'm sorry.

MR. McKELLAR: I just want to mention because of the fact I'm a farmer and because mention was made of the view of the Manitoba economy dealing with agriculture, much of the report dealt with agriculture and the good year we had in 1973. Because of the fact that the grain prices have dipped considerably and also the livestock prices have dipped considerably in the last three or four months, have there been any studies made, you know, regarding the whole agricultural economy, like for the year 1975-76 coming up? I just wondered, because I think this is very important to most of the farmers who have been planting their crops at the present time.

MR. CHAIRMAN: Mr. Remis.

MR. REMIS: No. I think that subject is way beyond the ability of this Board to deal with, really. This is not dodging the issue at all.

MR. McKELLAR: Well I think the whole livestock industry, though, I realize that's not your department, but I think the livestock industry is very concerned about the present time, and I'm just wondering if any studies have been made, because they're really in deep trouble right now. I just wondered if any studies have been made.

MR. REMIS: Well, the very fact that Professor Tangri, who is a member of our Board, is an agricultural economist . . .

MR. CHAIRMAN: Maybe Dr. Tangri would like to comment on this . . . ?

MR. REMIS: I would like to point out that we are concerned about this. The very fact that he's on it indicates that we're looking forward to utilizing his skills and knowledge in this field. Whether we will do a study in time to be of any value to you now, I'm not even sure, but certainly as you noticed, the report is largely a report on agriculture and I think it's pretty straightforward; I think we didn't beat around the bush.

MR. McKELLAR: Well, if the livestock industry, and the grain industry is in trouble too, and this is why I'm trying to relate one to the other like this, that we in the grain industry are in real trouble unless the livestock industry, some recovery is made of that particular industry.

MR. REMIS: Why don't I let Mr. Tangri speak for himself?

MR. CHAIRMAN: Dr. Tangri, would you care to step up here, Doctor, please? There's a microphone right here. Dr. Tangri is a member of the Board.

DR. TANGRI: Thank you, Mr. Chairman. I am an agricultural economist and before responding to your question I just wanted to make a brief observation or two on the question . . .

MR. CHAIRMAN: I'm sorry, Dr. Tangri, I have to be a little stuffy. This is a parliamentary committee and the rules are rather strict. The question is to you through the Chairman of the Board and your answer has to be relative to the question asked. I'm sorry but . . .

DR. TANGRI: Then I would like to have the Chairman of the Board ask me which questions he wants me to answer. (Laughter)

MR. CHAIRMAN: The question raised by Mr. McKellar.

DR. TANGRI: Is that the question?

MR. REMIS: I think if we're going to follow the procedure, I think he should repeat the question and then Mr. Tangri can answer.

MR. McKELLAR: Well my concern is about the future of the whole grain and livestock industry and its relation one to the other. The livestock industry being what it is right now, the depressed prices, and its effect on the grain industry like it eventually will have, I wondered if there's any studies made of what will take place in the next twelve months as to what is going to happen, because I tell you, the concern of the average farmer both in the livestock industry, the grain and cattle men and livestock men in general, he's really concerned right at this present time because of just what might happen. I'm just wondering what the experts have to offer in this regard, you know.

MR. CHAIRMAN: Dr. Tangri.

DR. TANGRI: Thank you. Your question, as you just say, the first part of it: are any studies being done? Not by the Board as of now, but certain studies are being made by some of the agricultural economists in the department, long range studies. I believe that some of the aspects of your question are also being looked at by the Manitoba Department of Agriculture, for as you know they are also quite concerned about the current trends. As you very correctly pointed out, in the last three months the prices have dipped, and I think some of the trends we have also noted . . . very broadly and very generally. At the moment the crystal balls are not very polished, not very clear, but the best we can say that there is concern - much of this depends on, not only what's happening in Canada, but largely and more so on the international trends, the situation in the developing part of the world, the third world, what's happening there and also what is happening in some of our major competitors in the supplies and production of grain - the U.S., Argentine, etc. etc. So at this time, we are unable to tell you exactly what is going to happen but I think in the near future, maybe 3 to 6 months, some of the answers will start coming in, but at the moment we can't answer definitively.

MR. McKELLAR: One other question. Are there any other indications that livestock prices will increase in the next six to nine months, in that neighborhood? Or is there anything to indicate that?

MR. CHAIRMAN: Dr. Tangri.

DR. TANGRI: At the retail level - I'm talking only as an individual, I don't want to commit the Board or the profession. As you know, if you talk to nine economists you will get ten opinions and you don't know where the tenth came from. But my own feeling at the moment is that at the retail level livestock prices are likely to go up a little bit.

MR. CHAIRMAN: Mr. Henderson.

MR. HENDERSON: Yes. Well I'd just like to make this remark here. I remember the experts doing a lot of studying a few years ago in connection with cattle and livestock and farming, and they recommended that rural people go out of livestock, and they went out of livestock. They recommended them to go out of chickens and out of hogs, and then a few years ago the experts were telling us that we had a surplus of grain, we had to live with surpluses, and that we were going to have depressed prices and, you know, the world could just produce more. So as far as I'm concerned, I think a lot of other farmers are concerned, we have lost faith in those experts. We sure have - we'll just do the opposite.

MR. CHAIRMAN: There being no more questions - The Minister of Municipal Affairs.

MR. PAWLEY: I would just like to ask the Professor when he's here, is he aware there is a serious concern about the present crop situation in Manitoba if present weather conditions continue. There will be very little wheat, if any, planted in the province and continuation of that further crop problem, so that at the moment indications are that we might be without any substantial crop whatsoever in Manitoba this year, '74. I was wondering in the event of a near or complete crop failure in the province, what type of impact that has on the provincial economy as a whole.

MR. CHAIRMAN: Dr. Tangri.

DR. TANGRI: I think the answer to some extent is fairly clear; that if we did have a disaster of serious dimensions, it would have a disastrous impact, it could have - not disaster, but at least it could have fairly strong impact on the Manitoba economy. But there is a saving grace, or there's always a silvery lining in the dark clouds that I can look at through this window, even now, that as long as our reserve situation is not too bad - you have to keep in mind, not only what is coming off the farm right now but also what is going through the pipe and what is with the Wheat Board - and with the reserves, I think that part of the harmful impact of that disaster would be alleviated, would be softened. The situation is not as bad, first of all, as it might look from the reports, because I know of quite a few big farmers and medium sized farmers who are busy seeding right now. They were high level lands, they were not low lying lands, and they are busy seeding. They are having difficulty in getting help, hired labour for example, but to the extent they can - and some of them have 6,000 acres, 8,000 acres, some are 500 acres or 1,000 acres. As far as I know from personal experience, many of them are busy seeding very very rapidly, so one can get sometimes overly scared by what one fears.

MR. PAWLEY: Excuse me, is that any particular part of the province - some distance from Winnipeg, would it not be?

DR. TANGRI: Yes, it's within 30 miles, 40 miles, of Winnipeg.

MR. PAWLEY: Of Winnipeg? Well!

DR. TANGRI: Yes, it's not far away. I have talked to them - I am not a farmer myself, but I have talked with some of the farmers and some of the people at the University. They say that it is difficult to find help, but they are busy seeding to the extent they can. Now there's no question that this damp weather would hamper the progress or the rate at which it can be seeded, but I don't think we'll have a total collapse to the extent one might be led to believe on general reports or hearsay. So there are two things - one is that their land is being seeded; secondly, the reserves and the buffer crops would help cushion them.

MR. PAWLEY: What would be the effect agriculturally if there is a substantial shift from wheat to oats and barley as a result of this present situation? Are we getting off the topic, Mr. Chairman?

MR. CHAIRMAN: I like to be as liberal . . .

A MEMBER: This is not the Agricultural Committee.

MR. CHAIRMAN: This is just what I'm wondering. I wonder if . . .

MR. PAWLEY: This is very basic to the economy of the province, Mr. Chairman, and I think very timely.

MR. CHAIRMAN: Well, perhaps the committee could take a five-minute adjournment and you could talk informally about some of these things. I want to hear from McKenzie Seed, if it's agreeable.

MR. MCGILL: Mr. Chairman, we desire to proceed immediately without any adjournment.

MR. CHAIRMAN: For five minutes. It's 9:30. We'll convene in five minutes.

(Five-minute adjournment)

MR. CHAIRMAN: Mr. McKellar, may we proceed? Mr. Evans.

MR. EVANS: Thank you, Mr. Chairman. We have with us the Chairman of the Board of McKenzie Seed Limited, Mr. Bob Clement, Q. C. very well-known lawyer in the City of Brandon; many years experience as well as a gentleman who has had considerable experience in business and in investments. Mr. Clement was - although he was elected by the Board, the Board elects the chairman, he's not appointed by the Government - the Board elected Mr. Clement chairman as of May 1st of this year, although he has served on the Board since 1970 I believe.

I just want to comment, Mr. Chairman, that the Board is also comprised of a few other members: Mr. Pat Kelleher, a professional accountant in the City of Brandon; a Mr. Glen Lawson, businessman, City of Brandon; Mr. Al Chisvin, professional accountant in the City of Winnipeg - I guess I should be using the expression "chartered accountant" - Mr. T. Sumida, businessman from the City of Brandon; Mrs. Kathleen Roberts, daughter of the late A. E. McKenzie, the founder of the company; Mr. Ian Blicq, Assistant Deputy Minister of the Department of Industry and Commerce; and Mr. Sidney Parsons, Chairman of the Board of the Manitoba Development Corporation.

By way of a very brief explanation, Mr. Chairman, for particularly some of the newer MLA's, the company, A. E. McKenzie, was virtually turned over to the Government of Manitoba by legislation in 1945 at which time 90 percent of the stock was given to the Provincial Government, and has since been held. The other 10 percent is presently held by Mrs. Kathleen Roberts, the daughter of the late Dr. McKenzie. Although it has therefore been virtually a Crown corporation since 1945, it was not the procedure or policy or practice to provide annual financial statements or highlights of operations until 1970. This was shortly after this Government decided not to sell A. E. McKenzie to a prospective American company who wished to buy it, but would not commit itself to maintaining the company in Manitoba, and indeed we understood the particular company in question was to move the McKenzie Seed operation. It had the intention of moving it to the City of Toronto. We decided to retain the situation that was set up in 1945, in 1970 therefore, and each year thereafter the company has issued annual statements of its financial operations, its profit or loss for the year. This is the first occasion on which we have had the company, although it is not a subsidiary, or although the MDC does not hold equity as such in the company and therefore it is not required to report by the law governing the MDC, the legislation under which the Manitoba Development Corporation is established, nevertheless in keeping with the Government's policy of providing information on companies in

(MR. EVANS cont'd) . . . which it has an interest, we have requested the Chairman to appear before you and to go over some of the highlights and to answer your questions. I might just add he has a couple of people with him, I suppose you might say in a staff capacity, including the President, Mr. Maruca and the auditor, Mr. Dave Norris. And with those introductory remarks, Mr. Chairman, I would turn the proceedings over to Mr. Clement.

MR. CHAIRMAN: Mr. Clement.

MR. CLEMENT: Thank you, Mr. Chairman. Since this is the first time that the Board of Directors of A. E. McKenzie Company Limited has had an opportunity to present their statement to you, I thought it appropriate to say a few words about the origin of the company.

It was founded in Brandon in 1896 by A. E. McKenzie, a young man then, under the name Brandon Seed House. In 1906 it was incorporated under its present name, A. E. McKenzie Company Limited. Mr. McKenzie married and had a family consisting of two daughters and no sons. He was a philanthropist as well as a seedsman. He gave substantial sums to the YMCA, to his church and finally to Brandon College, which was very much in need of assistance in 1930. He kept it going until it was finally supported by the Provincial Government.

In 1945, Mr. McKenzie made a donation of 90 percent of the shares of this company that he'd incorporated in 1906 to the Government of Manitoba - or to the Province of Manitoba rather. The vehicle for doing this was a bill passed in 1945 establishing a foundation and governing to some degree the conduct of the company. The foundation's purpose was to receive dividends from the company, invest them and use the funds for education in the Province of Manitoba.

Mr. McKenzie retained the active control of this company until his death, although it was owned by the province. On his death in 1964, the control of the company passed to the Province, as well as the ownership of it, and the Province now nominates the Board of Directors - with the exception of one of Mr. McKenzie's daughters, Mrs. Kathleen Roberts, who is a director by virtue of agreement so long as she lives and so long as the estate of A. E. McKenzie has 114 common shares of the company, which is his ten percent that he retained after giving 90 percent to the Province of Manitoba.

The capitalization of the company has not changed since 1906. There are 1,145 common shares issued. This is one of the things that the directors are concerning themselves with now, because the company is now operating on a national scale from coast to coast in Canada. It has purchased the other largest seed company in Canada, Steele Briggs Company Limited, and is in process of amalgamating or consolidating the operations of the two companies so that they are supplementing each other rather than competing with each other.

One of the purposes, of course, of the gift to the province was to provide money for education. You may wish to know how much was provided. The total receipts to the Foundation from the company have been \$483,392.21 in payments from the McKenzie Company to the Foundation, and then interest earned on that money while it was invested, \$192,885.39. Some of this money is still retained in the trust fund, \$190,437.07. The balance of the moneys has been paid to Brandon University for education purposes.

There have been no payments made to this Foundation by McKenzies since the death of Dr. McKenzie ten years ago. The provision as to payment of dividends was set out in the gift and in the Foundation legislation - that is, dividends could only be paid if the assets and working capital of the company were in a ratio of four to one, and that has not occurred since ten years ago - and in my view it's not likely to occur, because it would require present assets of \$32 million to bring this into ratio because of the capital situation of the company. As a result of being very much undercapitalized, the company depends on bank support for its working capital, and with present bank rates, interest rates, this is a very serious burden to the company.

You will wish to know what it does in its other field, that is providing employment. It now employs 350 people across Canada, with a total payroll of \$2,300,000 annually. In Manitoba there are about 175 employees, and their payroll is \$1,250,000.00. We're in process of creating new jobs in Brandon by amalgamating the Steele Briggs production facilities in Toronto and elsewhere with the production facilities in Brandon so that this will all be done in Brandon, with Toronto supplying a warehouse and distribution facility for the big markets in the east. Production will all be done in Brandon. This will add to the payroll in Manitoba approximately \$750,000 annually. This information has been included in various press releases, but I'd like to give it to you now.

(MR. CLEMENT cont'd)

The company, I think as I mentioned, is the main supplier of packet seeds in Canada. Also there are a great many small companies operating in the same field, so that there is a very knowledgeable competition that has to be faced in every part of Canada. The company is fortunate in having a management group who are experienced in this field, and who are working on and developing accounting procedures which will enable us to make the economies in distribution which are necessary to operate with the expenses that seem to be increasing every day.

I see that the statements have been circularized. I've also thought that you might be interested in having a look at the sales of the company and its subsidiaries over the last ten years. I have summarized this on one sheet of paper for you. I wondered, Mr. Chairman, if this could be distributed.

MR. CHAIRMAN: Would the Clerk please distribute these. Mr. Clement.

MR. CLEMENT: This sheet just distributed, Mr. Chairman, is a summary of sales operations and of net income over the period since the death of A. E. McKenzie, that is the ten-year period in which the affairs of the company were managed by a board of directors, and not by Mr. McKenzie. You will see that in the year following his death, the sales were \$3,320,000.00. They dropped the following year to just under three million. The same ratio seemed to continue for about eight years, the same sales picture with varying profit or net income results, which is tabulated on the last column on this sheet - until 1971, when you will see a drop in sales. In 1970 there was a drop in sales, and then in 1972 it shows the effects of the acquisition of Steele Briggs. Sales increased in a very dramatic fashion to over \$8 million, and last year sales were over \$12 million. The net income in those last three years you can see on the last column, in thousands. We made a small profit in the year ending October, 1971; we made a small loss in the year ending October, 1972; made quite a small profit in the year ending October, 1973. And in the last year there was a most unfortunate fire in the building adjoining McKenzie's building in Brandon, which spread to the McKenzie Building and destroyed in the busiest season of the seed business, December, when just as the shipments were going out to the retail stores, it destroyed half a million dollars worth of seed packets that were assembled and ready for distribution. This left the customers in a very bad way, and McKenzie did everything they could, including spending considerable extra freight money and extra acquisition of seed money in order to replace this and supply their customers. Some of this was recovered by insurance. There was quite adequate insurance, but the effort to overcome this loss just at that season was terrific with the staff. I certainly must commend the management for the efforts they put forth to minimize the effects on Canada of that rather disastrous fire. We are back in production again, and this season's results seem to be up to, if not exceeding our expectations, because people seem to be very hungry for seeds and for small garden plots and this is reflected in our sales this year. We don't get our full returns in for some time yet, but the present indications are that this year will be much better than we had reason to expect. On the other hand, the interest we pay is just terrific. The bank rates of interest as you know have gone up almost every month and we have to pay the current rate of bank interest even though the loans are guaranteed by the Manitoba Development Corporation.

Perhaps that's a sufficient background, Mr. Chairman. If there are some questions either as to summary or the statement - I might say I've only been Chairman of the Board for one month, so that I may have to ask for a little help.

MR. CHAIRMAN: Just before we get into the questions, I wish to commend you on your correction, so that we well understand the differentiation between the Province and the Government. Mr. Pawley, then Mr. McGill.

MR. PAWLEY: I'd like to commend Mr. Clement on his presentation. There's just one question I was curious about, and that was in examining the sales, one finds that interestingly during the period of higher sales - for instance '64, a loss, the next year a decrease in sales and a slight profit. Or if you take for instance '69, a higher sale period, a very substantial loss; the following year quite a sharp decline in sales and yet a profit. I was just curious as to why there would be so little relevancy between sales and net profit or income.

MR. CHAIRMAN: Mr. Clement.

MR. CLEMENT: The information that I have on this is, there is a very dramatic change in some of the cost factors, whereas the cost of distributing packet seeds to literally hundreds

(MR. CLEMENT cont'd) . . . of small grocery stores and the salesman's time to pick them up again makes a very awkward merchandising operation. This is something that we haven't got a suitable resolution to. Just to give an example of this, our President has told me that a display of seeds - which are in a display form to set up in a store with \$200 in retail value of seeds in it - was sent out to a small retail store at their request because it had been done in the previous year and the previous year and the previous year. That store sold about \$25 worth of seeds, and then in the fall those seeds came back - every packet had to be ripped, the seed put into its different category of where it was, tested for germination, discarded if the germination tests weren't of a satisfactory quality; if they were of a good quality, they were added to new supplies of seed and repackaged and sent out again. Now this resulted, on the smaller accounts of this character, on a substantial excess in cost of distributing the seeds over what came back in sales, and one of the present objects of the company is to eliminate the supplying of small user in such an expensive way. We don't want to cut him out, we want to supply him by mail or some other matter and have him look after it in a less expensive way, because they don't want to lose those sales; but we're not now having to compete with Steele Briggs, so that we think they can work out a satisfactory method of handling the smaller sales.

MR. PAWLEY: Yes. The seeds are supplied to all the main chain stores as well, we gather.

MR. CLEMENT: . . . all around consignment.

MR. PAWLEY: Oh. I was also wondering what the percentage of sales Manitoba is to Canada and areas outside of Canada. Do we have a sales market outside of Canada and the United States as well?

MR. CLEMENT: We don't have a significant market at all. One of the subsidiaries, which is Brett-Young, is known around the world apparently for its specialized seed in the fodder field seed range. It's not the packet seed, it's specialized seed. I was in the shipping room, and I saw Helsinki and the rules that Finland had established for the importation of seed right on the shipping board there, exactly what they had to do. And apparently this is one of the things that has made them very successful, is they know exactly what each market requires in the way of germination tests, documentation, cleanliness, all the rules that are needed in an international trade in seeds. But McKenzie's big business is in the packet seed business, and the European and United States markets supply their own packet seeds by and large. We do have some, what are known as convenience products. They're sort of like a little farm thing that's set out and people can water it, and it usually grows. But the main thrust of McKenzie's is in the packet seed, the lawn seed and the onion set business.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Yes, Mr. Chairman. I would also like to compliment Mr. Clement on his explanations and the detail that he's provided us with tonight. Certainly I think many of the questions that I might, and I do intend to ask, would probably be answered if, you know, I had a little more time to look at the financial statements. But I'll proceed in any event. I would also like to thank the Minister for regularizing - I hope this will be a regular annual review of the accounts of McKenzie Seed which is a major seed business in Canada, and one that Brandon of course is extremely interested in. I think everyone around this table is anxious to see that business prosper.

You did mention your major problem - at least I take it to be a major financial problem - that is the fact that you're operating on bank loans and that the cost of this is a great burden on the whole operation. I think it was reported in the News Service that last year the interest charges were \$615,000.00. Mr. Clement, do you see any relief from that in the coming year? Are they going to be as high as that this coming year or higher or what?

MR. CLEMENT: I don't see any relief for it, but the Board of Directors are trying to come up with a proposal that there be more equity capital introduced into the company if we feel that we can justify this with a plan of operations. And this is what we're presently engaged in, in making a businesslike plan of operations for the company for the next few years which would justify us in seeking more equity in the company, either from the main shareholder or from any other proper source. But we want to believe in what we're asking for before we ask for it.

MR. MCGILL: Well, I think probably we could maybe discuss that a little later when we talk about the responsibilities and the connection between Brandon University and the company and so forth. But I presume that some of this difficulty is occasioned, or is the result of

(MR. MCGILL cont'd) . . . having to use borrowed bank funds for the purchase of Steele Briggs and Brett-Young and those other operations, and that had you had some other source of funds other than straight bank loans you might not now be in the position to only showing \$8, 000 profit on \$12 million of sales.

MR. CLEMENT: I'm not saying that the cost of borrowed money is not a proper business expense, I'm simply saying that it makes it very difficult when nearly all of your money has to be at this expense. Brett-Young doesn't involve the company in any interest costs for acquisition purposes, there's no interest charged on the acquisition cost.

MR. MCGILL: Well, perhaps we might review a few of those acquisitions. I just note in passing that your ratio of current assets to current liabilities is eight to ten - that's a long way from what Mr. McKenzie had in mind when he said it should be four to one. So that's an indication of your problem. Could you tell me a little bit about the financial arrangement between your company and . . .

MR. CHAIRMAN: Excuse me please, Mr. McGill. You know, maybe if you want to have a private caucus, I would suggest that you have it elsewhere. Mr. McGill.

MR. MCGILL: The financial arrangements between McKenzie's and Bon Jardin, is it? - Good Garden of Mexico. Could you tell me something about that involvement?

MR. CHAIRMAN: Mr. Clement.

MR. CLEMENT: Mr. Chairman, several years ago the cost of producing seed, particularly packet seed that McKenzie's buys, started to accelerate, most of it coming from California. And part of it was the labour cost which is involved in producing seed from field crops of flowers and vegetables. It was thought that instead of the high cost California market selling seed to Canada, that we might make some arrangement with Mexico, which is still on the same continent, and have a mutually advantageous labour arrangement whereby they would produce some of this high cost seed, provide employment for their people which they dearly need, and that McKenzie might have an established market for seed that it has to buy because it can't be raised in this climate successfully, apparently. So the leading seed company in Mexico was contacted, this was a man named Mr. Berentsen and a joint venture was finally worked out with him whereby he would do the things that the Mexican people could do well and McKenzie's would do the things that we could do well, and work together on it through a company called Bon Jardin. And to start this venture, McKenzie's sent down some inventory of seeds which were surplus to their current requirements, and some cash to help them change the wording into Spanish, the instructions for planting into Spanish, and assemble them into displays suitable for Mexican distribution. Mr. Berentsen did an exceedingly good job through Bon Jardin of certain development work in Mexico, but McKenzie and Berentsen had a disagreement over one portion of their effort, and that was the value of the seed that had been sent down there. I was not involved in this, but this is what I learned from it. Instead of going to Court over the matter, we have now submitted this problem to arbitration; I hope it will be resolved, and that McKenzie's could continue this relationship with Berentsen. But in the meantime, McKenzie's has been fully occupied in recovering from that fire and amalgamating with Steele Briggs, and ensuring the Canadian market. So that until this dispute is resolved I don't think McKenzie wants to become further involved with the Mexican venture.

MR. MCGILL: Was there a financial loss? Would you say that there has been a financial loss as a result of that venture? I notice there's some unusual charges for bad debts here - is that in connection with this operation?

MR. CHAIRMAN: I'm sorry, Mr. McGill, you had two questions.

MR. MCGILL: They are related in that, in the News Service Release of March 16th, extraordinary charges were not directly related to the 1973 operations and consisted mainly of charges applicable to previous years, including \$220, 000 for bad debts and obsolete inventory written off. Is that the Mexican venture?

MR. CLEMENT: Yes. So this is in escrow at the moment. The provision in the statement is a provision providing there's a complete write-off; we have provided for it. We don't think there will be a complete write-off, but we have made provision for it because it's in dispute.

MR. MCGILL: I see.

MR. CLEMENT: And it's in a foreign jurisdiction, it's not before a court, it's in an arbitration proceedings. We think there will be a substantial recovery, but we've made provision in the statement conservatively for a complete write-off.

MR. MCGILL: Good word. Yes.

MR. CHAIRMAN: There are Conservatives and Conservatives. Mr. McGill.

MR. MCGILL: Mr. Clement, could you explain then some of the financial arrangements entered into with Sabetha Seeds of Kansas? I don't think we're familiar with that operation.

MR. CHAIRMAN: Mr. Clement.

MR. CLEMENT: Mr. Chairman, Sabetha, Kansas is a very small town, much smaller than Brandon. It has a very dynamic businessman by the name of Bernard Wiltz - among other things he operates a seed supply company. The location of Sabetha is very strategic to some of the largest United States markets. McKenzie's made an option agreement with Sabetha that involved them supplying some assistance, \$20,000 in capital, and in return received an option whereby McKenzie's could acquire all of Sabetha as a wholly owned subsidiary if certain objectives were reached by Sabetha by 1975. It seems from a report I received from one of our accountants about ten days ago who made a visit there, that they're experiencing the same buoyant sales of seeds that the rest of North America is and that they are going to do exceedingly well. It may work out very well; if it doesn't, the costs to McKenzie's will not be serious.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: I would like to proceed then to another subject. I understand, Mr. Clement, that now - and perhaps for a term of years, I'm not sure - the head office of the McKenzie Seed Company is in Winnipeg, although your major plant is in Brandon and it will become even more major when Steele Briggs is moved from Toronto to the Brandon area.

Now, I know that your problems are expenses in running this business. What is the reason for maintaining executive offices in Winnipeg as remote from the operations of the company in Brandon, and how much would you say annually this adds to your cost of doing business?

MR. CHAIRMAN: Mr. Clement.

MR. CLEMENT: I think this was the second question I asked when I became Chairman of the Board months ago. There are certain advantages to the President being on a main air-line route; when half the production was originating in Toronto, I think it was perhaps very important that the President be able to go quickly from Winnipeg to Toronto. I think with the amalgamation of Steele Briggs into the Brandon plant that some of these reasons will disappear, and I have asked our management to make a detailed report to the directors for a meeting we're having this month. I am concerned that the actual head office be in Brandon also - the legal head office is still in Brandon, the corporate head offices are in Brandon, but the President has so far found it more efficient to work out of Winnipeg. This is under review at the next meeting now of the Board of Directors.

MR. CHAIRMAN: Perhaps some living in other constituencies would like to make representation with you to consider many locations. Mr. McGill.

MR. MCGILL: You wouldn't, Mr. Clement, have an idea in terms of dollars annually of the cost of maintaining an office in Winnipeg?

MR. CHAIRMAN: Mr. Clement.

MR. CLEMENT: No, Mr. Chairman, this analysis will be made available to our next directors' meeting, but it hasn't been brought to me yet and I believe it's still under preparation.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: I think the point about transportation is one that you make, and perhaps the application of Transair will have some effect upon that difficulty. I understand that the late Mr. McKenzie had that pretty well worked out. He was just across the road from the CPR station, and I'm told he phoned the station and told them that he was going to take the train and would they hold a few minutes, that he wasn't quite ready to go, and they did that for him. I think this was a very convenient arrangement.

MR. CHAIRMAN: This was before life got so complicated. Mr. McGill.

MR. MCGILL: Mr. Chairman, I'd like to ask Mr. Clement about a recent trip of the President and I believe the merchandising manager, in the month of May to Holland. What was the purpose of that trip in respect to the seed business, was it a buying or selling trip?

MR. CHAIRMAN: Mr. Clement.

MR. CLEMENT: Mr. Chairman, the purpose of the trip was twofold. One of the problems in merchandising is, that if you're selling packet seeds, the public are only interested in them for two or three months a year and the rest of the year you have little if nothing to sell; so that McKenzie having a very effective distribution system, should have products if

(MR. CLEMENT cont'd) . . . possible that it is knowledgeable about and can sell all year round. Now one of those products is cut flowers, which the supermarkets find very acceptable for weekend specials - and to maintain quality all year round, Holland is the efficient producer of flowers and McKenzie's flies every week cut flowers to Canada and distributes them through its sales organizations to markets that have already placed an order. I could spend some time on this marketing point because it's a fascinating story, but this was part of the purpose of the trip to Europe. The other part was, that McKenzie's have a product which is very much in demand in Europe - not packet seeds, they can produce their own seeds just as well as we can, and therefore there's not - but our convenience products are new to Europe, and this was the other purpose, to find out if it was really worthwhile to look at a European market for a Canadian seed company.

I might say that the Canadian Government and Pacific Airlines paid the out-of-pocket expenses of the trip as a promotional effort.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Mr. Chairman, I recall that in the explanations about the Mexico connection, it was the intention to import cut flowers from Mexico. Is this Holland arrangement now taking the place of the proposed Mexican arrangement for the delivery of cut flowers?

MR. CHAIRMAN: Mr. Clement.

MR. CLEMENT: Yes. The quality of the flowers from Holland is so acceptable to the marketplace, that it seems to be the best until the same or similar standard could be achieved by another supplier. The greenhouses in Ontario produce a very good quality cut flower, but only for certain seasons like around Easter time they'll flood the market with certain types of flowers. But we're really interested in developing a weekend special, sell it for around 98 cents a bunch, and have a very good bunch of flowers that the housewife can buy for say 98 cents and take home in her shopping cart, put them on her table for the weekend, possibly with a bottle of Ontario wine or Manitoba wine or whatever she likes to do - but it is something that the supermarkets like very much, and that we have a capability of servicing.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Now, I'm jumping around a little bit here. You did mention the convenience display packaging program that the company was involved in. Now has this been a success financially, would you say, or is it one in which you have had difficulties? You mentioned for the very small accounts it doesn't seem to work, but what about this program generally, has it been an expense item for the company?

MR. CHAIRMAN: Mr. Clement.

MR. CLEMENT: I'm not sold on it, and I don't think management is sold on it. We recognize that it takes as a rule two to three years to introduce a major new line and test properly the acceptability of it, and we have some very serious doubts as to whether this is the answer to our year-round sales program. It's an odd thing, but some of the markets seem to have just welcomed the convenience products, and other markets can't do a thing with it. It's something that we still have to do more work on before we can satisfy ourselves as to whether it's something we should stay in, or go back into the packet seed business. This is another thing that we are going to have to deal with at a very early meeting.

MR. CHAIRMAN: Just before you proceed, Mr. McGill, I just want to let Mr. Banman know, I have your name down here. Mr. McGill.

MR. MCGILL: Yes. I want to just swing over now to the other matter which Mr. Clement mentioned, and that is the chapter of the Statutes of April 1945 which spells out the relationship and the benefits to be received by Brandon College, now Brandon University, and which - and I'm speaking here as a person who has had an interest in this over the years - it may be the difficulty, or part of the difficulty that you are experiencing at the moment in maintaining proper financing, or at least obtaining equity capital to enable you to reduce your current liabilities. Now you mentioned the - and you did it in detail, so I won't go over that - the Province has 1,028 shares of the stock of the company, and in return for this turning over, I understand that the Consolidated Fund of the Province of Manitoba pays \$22,500 annually to Brandon College. Now that is really a bookkeeping entry, because very much more money annually of course is being paid by the Grants Commission, so that really is not important. Then another requirement was that \$60,000 be set aside out of profits each year as working capital until that ratio four to one was achieved. Well I guess there hasn't been any \$60,000 application because the dividends have not achieved that status, but the first charge on declared dividends is \$20,000

(MR. MCGILL cont'd) . . . per year to Brandon University plus \$4,000 for if and when a Chair in Social Science is established. I think that is not established yet, is it? (No) So it has been represented in our News Service from the Government that Brandon University will variously receive 100 percent of dividends, or 90 percent, and up to this point - I guess since the Government of Manitoba became an active operator of this business, probably since 1969 or '70 - there has not been any opportunity for the University to participate.

I would like to hear your comments, Mr. Clement, on what you think the solution of this may be. These shares are in the hands of the Province. The University hopes some day to achieve some benefits from the operations of the company and at the same time they are specifically kept out of the operating decisions of the company - I believe that was the intention of the late Mr. McKenzie. So the question is, is there any way that this intent of the bequest of Mr. McKenzie could be provided for in the form of some agreed value of these shares - and I'm talking here, not as a representative of the University, but merely as a person interested in seeing some way out of this difficulty of providing capital to the company - is there some way that we could make sure that the intent of Mr. McKenzie's will was carried out, that the shares were actually purchased and an endowment fund set up which provides some revenue annually to the University - which again would be rather bookkeeping, wouldn't it, in view of the annual grants of the University Grants Commission?

Would you comment on that, and is there a problem there related to that situation?

MR. CHAIRMAN: Just before Mr. Clement comments, the Chair would ask Mr. Clement to comment and identify how he is commenting: whether he is commenting as Chairman of the Board, or an individual opinion, or as Queen's Counsel. That was a long question, Mr. McGill. You know, you started off with the Statute of Incorporation back in 1941 and I understand your questioning, your concern about it. So just not to be stuffy but perhaps, Mr. Clement, in answering your question he could inform the committee how he speaks, for the Board of his own opinion or . . . Mr. Clement.

MR. CLEMENT: Mr. Chairman, I think perhaps the best way to try and answer the question is to tell Mr. McGill my frank thoughts on the matter. I don't know that I can segregate and I don't think it would be useful to the Company for me to try and segregate them. I have one concern - I'm not sure what the intent of Dr. McKenzie, or A. E. McKenzie, was in making the gift. It had two possible results. One possible result would be to benefit Brandon University, which I think he did intend. The other possible result was that it would benefit the Company, because the Company would become a Crown corporation and would not be taxable. Now I can't tell what his intent was. I think, whatever his intent was, that the best thing the Company can do is to go about its affairs in a businesslike manner and try and make this a good, solid, financially-sound company; and if it can do that then the Foundation and Brandon University can suggest something that would be appropriate, but if the Company isn't successful, no arrangement is going to prosper Brandon University, and at the moment it seems to me that the immediate priority is to deal with the terribly high cost of interest, the difficult matter of servicing literally thousands of accounts, some of which cost more to service than they produce in revenue, and to adjust our consolidations and, just in a nutshell, to operate a good tight ship. I think if we do that, then whoever has to deal with the matter of the Foundation or the University will have an active, solid, responsible corporation to look to. But I have no immediate solution for this; there is nothing in the provision that Mr. McKenzie made that will help us in the foreseeable future. The Company just can't give away any money.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: One final question, then. Perhaps I may already know the answer from your previous explanations but there has been an announcement made from time to time that there would be a new building constructed in Brandon that would be more functional, would make the operations more efficient. Is the Company actually in a position to proceed with a new plant?

MR. CLEMENT: The Company has obtained recently a report from the firm of Urwick Currie and Company, who are management consultants, and they analyzed the advantages and disadvantages of a new plant in Brandon or elsewhere and the advantages and disadvantages of using the present plant. Their recommendation was to use the present plant. The directors and management of McKenzie have accepted this recommendation and are presently engaged in moving the Steele Briggs operation into the present plant and in making the physical adjustments to the building which will accommodate the extra persons involved, and we are very happy that

(MR. CLEMENT cont'd) . . . we can double our actual production of seed without having to build \$3 million or thereabouts of plant; that we can concentrate on operations instead of bricks and mortar.

MR. MCGILL: Good. Thank you very much.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Thank you, Mr. Chairman. Mr. Clement, if I could refer you to the Consolidated Statement of Earnings; in 1973 you show under Other Income \$386,000, in 1972 - \$69,000.00. Would you have any idea why the increase, and possibly for what?

MR. CHAIRMAN: Which page - I'm sorry - Mr. Banman?

MR. BANMAN: It's the Consolidated Statement of Earnings. There's no page number - Statement of Earnings. It's about the fifth page. Yes, it's the fifth page.

MR. CHAIRMAN: Comparing 1972 to 1973.

MR. BANMAN: Right. Under Other Income. I noticed that the income in 1973 under Other Income is \$386,000 whereas in 1972 it was \$69,000.00.

MR. CHAIRMAN: Mr. Clement.

MR. CLEMENT: I'm advised by Mr. Maruca of the Company that this figure is the recovery on finished products destroyed in the fire. They were not really sold, but our insurance provided a recovery, not of what the seed cost to buy but, as it was in the finished state ready to ship out, it provided a complete recovery of the cost of the finished product. That wasn't actually a sale so we have segregated it. It was treated by the insurance company as if it was a sale but we've kept it separate, so our profit is in that too.

MR. BANMAN: Do I understand that this was inventory cost or . . . ?

MR. CLEMENT: No.

MR. BANMAN: It included wholesale costs . . .

MR. CLEMENT: It included inventory. It was our selling -- what we would have sold the seed for, what we would have been paid for it when we shipped it. So there's a complete recovery on that.

MR. BANMAN: With reference to the purchase of Brett-Young Seeds, I realize that we haven't got a breakdown on how each company is doing, but would you say that this company is holding its own? Is it contributing to the over-all operations of this particular company, or does it require further subsidization on?

MR. CLEMENT: Mr. Chairman, Brett-Young has very expert and experienced management and the company's doing very well. I hope that when some of McKenzie's problems are solved that the McKenzie packet seed business will do as well.

MR. BANMAN: Just a last question and it might be much more of an observation than a question. I notice that your sales are sort of directly related to your liabilities. In other words, your investment runs very close to a proportion that your sales are. Is there any parallel to be drawn from that? Do you feel, with the investment of more money, do you feel you can obtain higher sales or . . . ?

MR. CLEMENT: Mr. Chairman, our present view is that we should work on the expense side of the balance sheet and tighten it up rather than trying to make more sales; that we have a very substantial portion of the Canadian market and that we should direct our efforts, not to increasing this, which would have the effect of lessening competition, but that we should try and effect economies in distribution and economies in borrowed capital. That's my feeling and I think it's shared by most of the directors and most of the management crew.

MR. BANMAN: I think that would be pointed out by the statement, because you have an increase of almost \$4 million worth of sales and yet the cost of operation seems to be running parallel to the amount of increased sales. Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Evans.

MR. EVANS: Mr. Chairman, I just have one very brief question and it relates to the building of a new plant which the board had in mind about three years ago - at least that's what I was informed of - and this was made as a public statement. However, various things have happened, as I understand, and a decision has been made, as I understand, by the board to consolidate in Brandon; that is the employees, the employment production from Toronto, to bring it into Brandon. Therefore, is it not true, Mr. Chairman, through you to Mr. Clement, is it not true that the board has, in reassessing the situation, made a decision that it was more critical to work towards the maximization of employment and help increase the viability of the Company as opposed to spending more funds on a new structure?

MR. CLEMENT: Yes.

MR. CHAIRMAN: I wonder if I could just slip out of the Chair. I have one question. I found this very interesting.

MR. EVANS: I have one short question after you're finished and then . . .

MR. CHAIRMAN: I thought you were finished. Mr. Evans.

MR. EVANS: But, Mr. Clement, would you hope -- I guess you would, but do you anticipate that, as consolidation proceeds and as you bring the Company into even better shape than it is at the present time, that eventually you will be likely to plan a new building and thereby provide your production people and all your staff, I suppose, your main staff, with these newer facilities? In other words, I'm asking you: has the board in effect completely wiped out of its mind the thought of building a new plant at some time in the not - I don't put a time limit on it - but is there some thought that there will have to be a new plant at some point in the not too distant future? And I won't define what I mean by that, but . . .

MR. CHAIRMAN: Mr. Clement -- I'm sure we have found that he can answer these questions well. Mr. Clement.

MR. CLEMENT: Mr. Chairman, the present McKenzie buildings were built in the days of vertical movement of seed and storage - two buildings, one five storeys and one six storeys, and everything has to go up and down instead of going horizontally. The buildings are not efficient, they're not modern, but the priorities seem to indicate that we should put up with these buildings until we have a sufficient cash flow into the company that we can be sure the company will be operating while we plan and move into a new building. Now I'm not sure when that will be - two years or three years or five years - but somewhere within the very near future, and I think for the present time the staff will be able to carry on the major operations of the company in the present buildings but they won't be able to do it as efficiently as they could in new buildings.

MR. EVANS: Thank you.

MR. CHAIRMAN: Thank you, Mr. Clement. Maybe in two, three, five years, the representative for Winnipeg Centre can prevail upon you to locate your new plant in his constituency. (I say that facetiously of course.) Mr. McGill, you have another question?

MR. MCGILL: I was waiting for you to slip from your Chair and ask the question . . .

MR. CHAIRMAN: At the lateness of the hour, I'm not going to indulge myself. I can ask Mr. Clement privately. I am very interested in one or two . . .

MR. MCGILL: I would just then say to Mr. Clement that we appreciate very much his very helpful answers here tonight, and I have the decided impression that the affairs of the A. E. McKenzie Company are in extremely capable hands.

MR. CHAIRMAN: I'm sure Mr. McGill speaks on behalf of the committee.

MR. EVANS: Mr. Chairman, on a point of order. Do you move to accept the report, or . . . ?

MR. CHAIRMAN: There's two items of business to complete before we rise - the acceptance of the two reports. The Chair will entertain a motion for the acceptance -- that the reports of the Economic Development Advisory Board be received. Is it agreed? (Agreed)

Do we have a motion to accept the report of the A. E. McKenzie Company Limited? So moved? Agreed? (Agreed) Committee rise. Thank you very much to you and your colleagues, Mr. Clement.