

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Thursday, 27 June, 1985

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. D. Malinowski (St. Johns)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Harapiak, Kostyra, Lecuyer and Schroeder

Messrs. Adam, Banman, Enns, Johnston, Malinowski, Ransom

APPEARING: Flyer Industries Ltd.

Mr. Hugh Jones, Chairman

Mr. David Gardave, Senior Vice-President and Chief Operating Officer

MATTERS UNDER DISCUSSION:

Flyer Industries Limited - Report and Financial Statements December 31, 1984

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CLERK OF COMMITTEES, Ms. T. Manikel: Committee come to order. As Mr. Ashton is no longer a member of this committee, we must elect a new Chairman. Are there any nominations? Mr. Harapiak.

MR. H. HARAPIAK: I would nominate Don Malinowski for Chairman.

MS. T. MANIKEL: Are there any further nominations? Father Malinowski.

MR. CHAIRMAN: Good morning, ladies and gentlemen. The committee will come to order. We are considering discussion on Flyer Industries Limited, the Report and Financial Statements, and I believe the Honourable Minister will have the first remarks.

HON. E. KOSTYRA: Thank you, Mr. Chairman.

To deal with the Flyer Review, I will of course be asking Mr. Jones, the Board Chairman, to provide the committee with comments on the Financial Statements that have been tabled this morning, and to have him further provide the committee with an update on the operations.

With him is Mr. Dave Gardave, Senior Vice President and Chief Operating Officer of Flyer. Mr. Gardave, at the request of the Flyer Board, was seconded from the Department of Crown Investments to his present position last November, to take control of all operational matters, bearing in mind the board's deep concern with the significant deterioration in the company.

When we met here last year I commented that as Minister responsible, I viewed the picture in place before us at that time with very deep concern, for obvious reasons; that concern far from having been alleviated, is even more serious now when one looks at the magnitude of the loss for the fiscal year ending December 1, 1984.

I made mention last year also of the fact that a major Productivity Improvement Program had been launched with consulting firms to assist Flyer to modernize its manufacturing operation generally, and to identify and remedy a multiplicity of problems that have been inherit in this operation for years.

I would expect that Mr. Jones and/or Mr. Gardave to comment specifically on the work of the consultants, but it is obvious that although improvements have taken place, and indeed are continuing, they are awfully late in the day.

Several times during the course of the current Session I have advised the House of the aggressive approach taken to deal with potential divestiture, merger and/or joint venture. I can confirm, once again, that the government is exploring all options available and it is very clear to my colleagues and to myself that we must proceed to a conclusion on the future of Flyer as quickly as possible.

I'm not prepared at this time to divulge any specifics of our current ongoing negotiations or to disclose the names of candidates with whom discussions have taken place. That information will be made available as soon as we are in a position to finalize an arrangement, which hopefully will provide continuity of this important industry in the province in such a fashion that the severe drain on the public purse can be stopped.

I would be less than fair if I did not comment now upon the tenacity of those employed at Flyer, presently producing buses for the City of Winnipeg on schedule and to the satisfaction of the City of Winnipeg.

The extremely difficult circumstances surrounding almost every facet of Flyer's operations, those involved from board to management to employees have expended significant effort to remedy the multiplicity of problems; many, if not most, inherited from previous incompetence.

For those comments, I would like now to call on Mr. Jones to deal with his introductory remarks and he will undoubtedly be asking Mr. Gardave to assist him in providing detailed information for the committee.

MR. CHAIRMAN: Thank you, Mr. Minister.
Mr. Jones.

MR. H. JONES: Mr. Chairman, the seriousness of Flyer's position will be abundantly clear when the committee examines the major increase in the overall loss of the company for the fiscal year ended December 31, 1984. We had believed last year when we reported to this committee that measures then introduced and described to you would have had sufficient of an impact

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on operations to have indicated some movement to stability. For a number of reasons, which I intend to elaborate upon later on this morning, those measures were taken too late in the day to avoid a loss of the magnitude now before you.

With Mr. Gardave's assistance, I will attempt to provide you with detailed background to the information contained in the '84 report, but before doing so and I think this is the standard process, Mr. Chairman, I'd like to bring the committee up to date on the board content. Since we met here last year, there have been two resignations from the board in the persons of Mr. Kenneth Holland and Mr. Lloyd Van Hall and two new appointments: Mr. Brian Kuysten and Mr. Tony Zienkiewicz have been appointed as worker representatives.

So the content of the board of Flyer now is: Mr. Roy Church, Mr. Albert Fia, Mr. Brian Kuysten, Mr. Lloyd McGinnis, Mr. Leonard Remis, Mr. Dan Shakhar, Ms. Frances Statham, Mr. Bernard Thiessen, Mr. Tony Zienkiewicz, Mr. Gardave and myself.

Furthermore, as the Minister has already mentioned, Mr. Gardave was installed as Senior Vice-President and Chief Operating Officer of Flyer late last October.

As a result of a meeting of the directors of Flyer last week, I'd like to confirm to the committee now that the board reconsidered again very carefully the role of Mr. Clark, the company's president and chief executive officer. We stated publicly last year that the extent of the claims, of warrantly claims, was such that the directors believed very strongly then that it needed the full-time input of Mr. Clark to deal with the 18 or so transit authorities in North America, which had submitted significant claims to Flyer. At that time, Mr. Clark accepted the arrangement defined by the board, which in essence was an amendment of his contract in terms of responsibility and authority, adjusting his role solely to the concentration of the work involved on those claims.

So when the directors met last week, they reviewed the warranty issue carefully again in conjunction with legal counsel and although negotiations have proceeded fairly well in these last months with the various transit people, it is clear that much more work has to be done to finalize the settlements which will be satisfactory both to Flyer and to the claimants. In view of that, the board concluded again that Mr. Clark should remain very clearly in the role given to him last fall and only in that role.

Clearly, Mr. Chairman, the existing management arrangements for Flyer have to be looked upon as interim measures only, established mainly to ensure that the effective remedies to deal with the production problems, as evidenced now by the acceptability of the Winnipeg and Toronto Bus, continue to be the priority of the company. The development of an appropriate strategy for Flyer's future will, of course, depend upon the results of negotiations currently under way for divestiture or merger.

Mr. Chairman, coming now to the financial statements, the first obvious contribution to the 1984 dismal performance has been the significant drop in bus sales. In 1983, we shipped 314 units, for a total of just over \$56 million. In '84, we shipped only 200 units for 36.7 million.

Not least in the difficulties we encountered in '84 was the bankruptcy of Dickenson Lines of Minnesota. The

Committee may recall my mentioning last year that to comply with Buy America legislation, we were obliged to subcontract to a United States firm for final assembly on our contract with San Francisco. Hardly had we had those arrangements completed, Mr. Chairman, when the Minnesota company ran into serious financial difficulties resulting finally in bankruptcy.

Should there be specific questions on that subcontracting issue, no doubt, Mr. Gardave, can help me with the details, but let me just say that renegotiating an issue of that significance took time and involved additional costs to Flyer. The final result of that exercise was that we contracted to Motor Coach Industries and undertook the final assembly work in their Pembina plant.

In the midst of that activity and other problems plaguing production, the company, as you recall, received significant publicity regarding claims, as I've just indicated, on warranty work. The board made a conscious decision that the company could not go on producing buses without a major attack upon the design problems and to that end, a very complex program was undertaken by the Ontario Research Foundation, the results of which are only now becoming fully known. Sufficient remedial action has been taken, as I have said earlier, Mr. Chairman, on the Winnipeg and Toronto model and, in very general terms, it is accepted that Flyer has finally begun, late in the day, to address the problem affecting its product.

Mr. Chairman, in all of this, it became obvious to the directors that until we were able to demonstrate that we had applied the appropriate corrective measures, it would have been absurd to have undertaken fresh activity in terms of bidding on new contracts. In addition, conditions in the marketplace were such that Flyer simply could not afford to compete in pricing. In this respect, it has been said before that the market is vastly oversupplied and we foresee for the next couple of years, at least, some rationalization taking place which strengthens our argument again that low volume requirements and the pricing suggest that even with the best performance, Flyer's prospects of viability really rest upon effective merger or divestiture.

On the question of new bids, Mr. Chairman, it has to be noted that in the last year particularly, there has been a very general nervousness in the bond market for this industry and it is significantly the case in Flyer where the publicity surrounding us in the last 12 months or so has caused our own insurance people to take a very hard line indeed relative to performance bonding. I confirm to the Committee, as I did last year, that we currently guarantee performance bonds to the extent of \$53 million. That's a combination of guarantees by MDC and the province. In that respect, I can advise you today that arrangements are now under way to delete \$20 million of that \$53 million guarantee to the Canadian Indemnity. I can explain the background to that if members wish.

Coming back to the financial statements, Mr. Chairman, I've already mentioned that bus sales were \$36.7 million and the balance of just over \$6.8 million relates to part sales. I'm sure that the Committee will have questions on the cost of sales. In that respect, let me be clear now that in terms of the bus sales alone, costs were 113.5 percent of the total sales of 36.7 million. That is to say that sales were 36.7 and costs

related to those sales were 41.6. Eighty percent of the cost related, of course, to material and 19.3 percent were related to overhead compared with 12 percent in 1983.

Mr. Chairman, the magnitude of those costs of sales and the transposition perhaps from those costs might well give rise to questions on the unit cost per bus. If that should be the case, then I believe there really is a need for me to give some explanatory overview now of the factors affecting the situation. I cannot and I would not gloss over the appalling financial results for 1984, but it has to be recognized that almost \$11 million of the cost of sales had nothing whatsoever to do with the production of buses.

Accounted for in that \$11 million, amongst other things, is the significant amount provided for in terms of warranty claims, consulting costs of between \$2.5 and \$2.8 million, liquidated damages and other items, and it must also be noted that significant engineering time and overhead expense generally related to the correction of problems on buses, which had been delivered as far back as 1978.

On the consulting issue, I shall ask Mr. Gardave to provide the committee with background on the programs undertaken and the reasons for them and later in this meeting, if desired, I'll be in a position to provide a listing of the transit authorities involved in the warranty provision.

Still on the Financial Statements, Mr. Chairman, on the receivables, virtually all the monies indicated on the balance sheet have been collected since year end, and I might add, in that context, that collection of receivables since year end has remained very satisfactory to the extent that at the present moment, we have an adequate cushion within the bank line of credit.

If I could summarize, Mr. Chairman, in conclusion, the total investment of the Crown through MDC in Flyer, direct investment consists of MDC's holding of 98.3 percent of all the issued, preferred and common shares of the company. That investment involved approximately \$34.8 million.

As at May 31st last, there were loans outstanding to MDC in the amount of - and I'm rounding the figures out - \$2.9 million with a further \$4 million or so remaining to be disbursed if and when necessary. Going back into history, Mr. Chairman, MDC first made a loan to Flyer in 1969 in the amount of \$2 million; a further \$3 million in 1974. Last year, in January, there was a loan of \$9.7 million and I reported to the committee last year that \$8 million of that was converted into preferred shares in 1984. In August and October last year a further \$5.5 million was authorized through MDC.

To reiterate finally my comments of last year, the MDC and the province issued guarantees of \$53 million which I have already explained. In addition, there are guarantees outstanding to the Bank of Montreal, the company's banker, for \$30.5 million for the company's operating credit facility.

Perhaps I should stop there, Mr. Chairman, and ask Mr. Gardave to comment upon the consulting programs, and perhaps a few comments on the Ontario Research Foundation, and then we'll be pleased to accept questions.

Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Gardave.

MR. D. GARDAVE: Thank you, Mr. Chairman.

In commenting on the consulting study that was undertaken by Flyer Industries at the beginning of 1984, I should give you some background prior to that time. At the end of 1983 Flyer, we realized, was losing about .5 million per month in operations, and that in examining its operations we recognized major weaknesses in almost every functional area. Therefore, when we went out for consultant proposals, we recognized that work had to be performed in every one of these areas, which is very unusual, because mostly consultant assignments are designated to very specific target areas within an organization.

We knew it would be expensive, it proved to be even more so. In addition to the overall comprehensive consulting study with specific targets that was initiated at the beginning of 1984, we also had the consultants take on two other major studies. One was probably the largest market study of the transit demand in North America ever undertaken, including both the United States and Canada.

The second major study was a strategic study designed to determine Flyer's future and under what conditions it could continue as a viable entity. Out of the second study, particularly based on the type of market that we are faced with in North America, which will probably persist for the next two or three years, the conclusion was reached very clearly that a merger or divestiture were essential with a partner for Flyer to continue. The partner would have to be one who could provide additional product lines besides the transit bus that Flyer is currently manufacturing, in order that it could provide also overhead resources and therefore lower Flyer's overhead and administrative costs. Since that time, there has been a further market decline in the demand for transit buses, particularly in the U.S. market, further confirming this conclusion.

At about the time that these results were surfacing, it was also apparent that the major middle management weaknesses that we had recognized in Flyer could not be filled by hiring management talent from outside the company, particularly from outside the province because of Flyer's uncertain future. As a result of the quest for seeking a divestiture or merger, the board felt that it was critical to maintain operations and try to improve them, notwithstanding that we were in a difficult position with regard to management talent and it was therefore decided to continue at a very continued high cost which had never been anticipated the continued involvement of consultants, some of which took key operating management roles within the company.

I'll have to concur with the Minister's statement that the benefits of the consulting study were long time coming. Some of these benefits we could not implement in '84 because we recognized, first of all, that some of the difficulties in terms of structural problems had come to light and we were forced to hold up production until these had been corrected by the studies that I will comment on in a minute. The others took place because we also had to interrupt production as a result of the bankruptcy of our designated final assembler in the U.S. and we lost the period between June and September when we were unable to restart final assembly and continue the conclusion of the contract for San Francisco.

However, as of this time, I might add an encouraging note not to deny that losses are still continuing, and

that is that we are now just beginning to realize some of the benefits of the consultant's work because we are involved in a longer run at the moment for the City of Winnipeg which will be followed by an even larger one for the Toronto Transit Commission. In the process of this, we've been able to bring down our final assembly hours from ranges in the 1,800 to 1,600 hour area in early '84 to where we are now averaging less than 1,200 hours per bus and we have had several buses where we've recorded instances of 1,176, 1,173, 1,188 hours just as examples.

I'd like to turn my comments now to the need and the general overall program that was undertaken with the Ontario Research Foundation and I should add that we included right at the outset the participation of the Industrial Technology Centre which is part of the Manitoba Research Council. Their involvement has grown steadily since the program began.

This was a program designed specifically to develop a structural integrity of the Flyer Bus to meet the specific requirements of various transit authorities in the U.S. and Canada. It began with a series of instrumented road tests, subsequently followed by computer modelling technique which is referred to as Dynamic Finite Element Analysis. We brought a lot of this work from the pioneers in this area which was centred in the Ontario Research Foundation in Canada to the Industrial Technology Centre, who are now doing easily over half of the program in its conclusion right here in the City of Winnipeg.

The specific requirements of each transit authority, it has come to light, are very different, and as a result of this we have had our own Flyer bus instrumented, running on the streets of Winnipeg, Toronto, New York, and these have been concluded. We are in the middle of such tests in Chicago, and also San Francisco and Vancouver.

As a result of the computer modelling that we have done and the results of these tests on these actual roads, we have now realized improvements in the structure which has satisfied both Winnipeg and the Toronto Transit Commission. These in fact vary slightly because of the different specifications and are now placed into production and are meeting their requirements.

I might add that other properties have also experienced this type of structural problems. Without commenting further on the City of New York, we found that the most severe conditions exist and a bus would have to be substantially altered to perform for the normal service life expected on those service routes. Somewhat the same is true of Chicago.

Just as a point, I might add, General Motors itself has had problems of this sort, and my understanding is they have increased the strength of their structure and added almost double the weight that Flyer had to to its structure in order to meet its conditions and requirements in Canada, where it had been testing its latest model of bus being built in Canada.

Companies like Flexible and Neoplan (phonetic) have also had problems, and unfortunately, some of their buses are still off the road. I'm happy to say as a result of the work with the Ontario Research Foundation and the Industrial Technology Centre, every Flyer bus built is still operating in revenue service.

Thank you, Mr. Chairman.

MR. CHAIRMAN: Thank you, Mr. Gardave. Do we have any questions?

Mr. Banman.

MR. R. BANMAN: Thank you, Mr. Chairman.

I have some specific questions, and I know my colleagues do too, but I want to first of all say that it has taken almost \$40 million and four years later for the NDP Government to realize that they cannot, and that governments have a very difficult time running any business.

Mr. Chairman, I want to say to members of the New Democratic Party and the people of Manitoba, all one has to do is go read Hansard from 1977 to 1981, when the then administration was trying to rationalize and try and find buyers for Flyer. All we have to do is read the Hansard and see the protestations that were made by the New Democratic Party about the government giving away assets, selling profitable companies to the private sector, and, Mr. Chairman, here we have an example of how the government, in four years, after having spent \$40 million of taxpayers' money, now arise at the same position my colleagues and I realized that we were at five, six years ago.

Mr. Chairman, I want to tell the members opposite that this has cost. Their total irresponsible approach in dealing with the Manitoba Development Corporation and dealing with Crown corporations, government-owned business, in this particular instance can be laid directly at the feet of the New Democratic Party, who have cost this province \$40 million because of their philosophical hang-ups. Mr. Chairman, that's the bottom line.

All you have to do is read Hansard, and as someone who is concerned about the taxpayers and knew what was happening in 1978-79, 1980, I feel really bad about this, because \$40 million worth of taxpayers' money has been wasted by the New Democratic Party. Now we read here, "Flyer's prospects of viability rest upon effective merger."

MR. H. ENNS: That's what we were trying to do.

MR. R. BANMAN: That's what we were trying to do, and you members opposite were totally irresponsible, totally irresponsible, and now it's cost us \$40 million. The only people that have benefited from this whole fiasco are the consultants, those are the only people.

I dare say, Mr. Chairman, if we were to line up the consultant reports, not only done by the New Democrats, but done by the Conservative Party from 1977 to 1981; we'd have a hard time finding enough room in this room to have all those consultant reports, because that has been the knee-jerk reaction of any government. When there was a problem, call in a consultant, and we've spent millions of dollars on consultants.

But the fact of the matter is that the New Democratic Party will be held responsible for \$40 million wasted of taxpayers' money and that's the bottom line, and we're not finished with this yet. The Minister has the - and I've told him this before - he has the enviable position of having an opposition who realizes what the problem is and has not been attacking the government for what? For trying to find a buyer. That's the only solution.

We're glad, even though it's cost us \$40 million, that they've finally come around to that way of thinking, but it has taken \$40 million to bring us to that point; and I guess the question we have to ask here today, we've heard some concern about projections, we've heard some concern about the problems of marketing. The markets are tight and I guess I would want to, first of all, ask, I know Flyer does monthly financial reports, we've now operated almost six months, what do the first five months of operation tell us? In other words, what are we projecting as far as the total number of units that we're going to be producing and what are the amount of losses we're going to have with regard to 1985. We should have, I would imagine, some idea because we've been operating for five months already.

MR. H. JONES: Mr. Banman, your question of the number of units for '85, we expect to produce, deliver and sell 215 units.

MR. R. BANMAN: How many?

MR. H. JONES: 215. The position to date - that's not correct, Mr. Chairman. To the end of May, we had sold 77 units and the net loss to mid-May, and that includes the obvious - the interest costs and consultants and so on, was \$3.8 million.

MR. R. BANMAN: The warranty you have, you have written off \$5.7 million on unusual warranty provisions, and this might go into the consultants' report too. What is the projection with regard to the ongoing warranty commitments on the vehicles that we have now in service? In other words, has there been a determination made, based on the warranty claims and the warranty expenditures in the last number of years, on what it's going to cost us in the future to provide and live up to our warranty commitments.

MR. D. GARDAVE: In response to that, as a result of our road tests and structural analysis program, we are now providing the normal \$2,000 per bus warranty on the buses being built in current production. We do not anticipate that any more will be required, unlike some of the other programs where we have now had to set up reserves for buses being built since 1978.

MR. R. BANMAN: One of the difficulties that I would imagine you're having is there are liabilities with regard to warranty still outstanding, and I guess that's why Mr. Clark is going to be in the position of trying to deal with that. Could you tell the committee, for instance, the buses that we sold last year, what kind of a warranty have we given the people that have purchased those buses? In other words, is there a five-year warranty? What kind of a warranty are we looking at and, No. 2, are you providing warranty up and beyond that time because of some structural problems?

MR. D. GARDAVE: The warranty provision for buses built in '84 carry a three-year structural warranty. We're not providing any more as a result of the retrofit programs that we've spoken of and this is now being considered normal in the industry.

MR. H. JONES: Mr. Banman, if I just may comment a little bit on the . . . you used the expression 'writeoff',

but there is an unusual provision for warranty of just over \$5 million and I did explain, I think, last year we had undertaken and we certainly updated this, a very, very intensive analysis of at least 18 transit authorities, buses delivered as David has said since 1978, and there's a legal and a commercial component on the warranty and we believe very strongly, and we've had agreement in principle from those transit authorities that that provision, that unusual warranty provision really is a complete exercise and that, as you said, Mr. Banman, is the role now which Mr. Clark is undertaking to reach final settlement. This is the unusual warranty from the inherited mistakes of the past, and what David was taking about was the ongoing \$2,000 a bus, which is a standard routine provision.

MR. R. BANMAN: On the three-year structural warranty on the units that are out there that would be still under warranty coverage, you mentioned that \$2,000 is what you have set aside per bus. Is it anticipated that those \$2,000 will be enough to cover those warranty claims that will be coming in on the units that still are under warranty?

MR. H. JONES: The answer to that is yes, Mr. Banman.

MR. R. BANMAN: One of the largest difficulties, and I would direct this question to Mr. Jones, one of the largest problems that we had when we had Saunders in receivership, and you will recall that, was the problem of negotiating the warranty as well as the obligations which Saunders Aircraft had undertaken to provide parts and continuing parts stock for the existing aircraft that were flying; and I think what finally happened is we were better off, if my memory serves me right, to buy back the airplanes that were flying. It would have been cheaper and I think, in the end, we worked out some kind of a deal doing that, working our way out of those commitments. What kind of a contingent liability like that do we have with regard to Flyer? Is there a commitment to provide ongoing parts and back up with regard to the buses that have been sold over the many years?

MR. H. JONES: Mr. Gardave, do you want to give the details on that. There certainly is a commitment, but the analogy with Saunders really isn't, I don't think, correct.

MR. R. BANMAN: I raise that because I think some people are not aware that you cannot just simply close the company down and not expect some ramifications. The government has undertaken a guarantee and the government would have to, since it owns this company, would have live up to commitments, not only, I guess, legally but morally, because you've got these buses travelling out there and if the government were to make a deal with anybody with regard to the taking over of the company, either by merger or otherwise, wouldn't this be a fairly large consideration in any deal that you're making, because that is a certain contingent liability that you're undertaking.

MR. D. GARDAVE: Just to comment on that, our parts and service work that we're doing for transit properties,

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where Flyer buses are operating, is actually profitable and would be an attractive acquisition for any divestiture candidate; so as far as we have assured all of our customers, the parts and service that they would require to continue operating their fleets will continue.

MR. R. BANMAN: The consultants' reports that have been done, \$2.5 million worth, I guess they are of a technical nature which the company would not want to release for the public to see. Am I right in assuming that?

MR. H. JONES: Yes, I think so, Mr. Banman. You know, there were really four separate consulting programs. One of them, as has been mentioned - I think mentioned in the House as well - was a significant market study. One of them was a study undertaken in Winnipeg by Effective Behavioural Management, I think the name of the company was. The major work was undertaken by Touche Ross, and Currie, Coopers & Lybrand. Touche Ross is - let me put it this way, Mr. Banman - different from some of the consulting studies which I know you were aware of that we have inside MDC. It was quite a different process. It really was a productivity improvement program. They were in on the shop floor, from the shop floor upwards, so it's not really a question of consulting reports per se. They were actually inside the company for X number of months and they even commented specifically on the various tasks and what has resulted from them.

I would not deny again, and neither did Mr. Gardave, that the benefits that were reaped from those studies certainly do not relate to the cost. I don't think that will surprise you at all, Mr. Banman. In other words, there's not a nice neat package of reports we could produce even if it were appropriate. Five or six - five I believe - people from those consulting firms are still in Flyer as functional managers. That is certainly something that was quite different from just going out and asking for a consulting report. They're actually running some departments.

MR. R. BANMAN: Has Flyer or the consultants done a projection on the requirements of all the Canadian transit authorities? In other words, you mentioned in your statement that the future is not too bright with regard to the number of buses that will be purchased over the next while. Did the corporation do a projection on what they felt the market would be and based on an historical trend what Flyer's share of that market would be over the next, let's say, five or six years?

MR. H. JONES: Mr. Banman, as I said, the first major piece of work undertaken by the consultants was a market study by a firm in Massachusetts. Our own knowledge of the market was strengthened significantly by that study indicates very clearly that the market is flat for at least two years, probably longer. The percentage of the U.S. market that Flyer has had historically is 7 percent and that, in fact, is less now for obvious reasons. In the Canadian market we have a higher share, but we simply have to recognize that there is an oversupply in this industry. The market for the next 2, 3, 4 years simply cannot, the yield cannot cope with the number of companies producing this product.

I should add too before I finish, Mr. Chairman, if I could, and I think it's a very important fact which I should have perhaps mentioned earlier in my introduction that because of the problems in Flyer - and you can see it clearly before you now - the fact has to be recognized there is a deterioration within the company, and that won't surprise anyone, that we are losing people.

David made a comment earlier that when the consultants were going in, it was quickly recognized there were a number of very key positions that should have been filled. But frankly, attracting the kind of talent necessary to fill those positions, coinciding with the assessment of Flyer was absolutely disastrous. We couldn't find them. We're operating now under extremely difficult circumstances; the morale is anything but good. That's a truism.

MR. R. BANMAN: Of course, Mr. Jones, that's been our problem all the way along from away back. There was always a management crisis at Flyer. There always has been. Even when I was Minister, the morale question, whether it would be with the union coming in to see the Minister complaining about management or the other way around, I guess that's an historical problem with this that probably is compounded with the losses and the prospects of having limited sales with regard to the future.

I would ask, based on the end of May production of 77 units and you're projecting 215, you've lost close to \$4 million in the first five months, has there been a projection since obviously you are projecting that the market is going to be down and even if you maintain your share of the market, you'll be producing fewer buses - what are you anticipating as losses for this year and the next?

MR. H. JONES: Mr. Banman, I simply could not begin to project what's going to happen in 1986. We have an order book at the present moment, it will take us through probably to the end of March. That's when the second Chicago contract will be complete. The bidding process in the U.S. I've referred to. There are some bids coming up in Canada which can be addressed but for 1985 - and I always find this difficult. I reread Hansard myself last night and I'm proven wrong 200 percent of the time in trying to look into a crystal ball, but if you look at the 3.8 million loss including everything for the first five months, then we cannot look at less than \$9 million to \$10 million for '85.

Excuse me, Mr. Chairman, I wonder if, Mr. Banman, you'd mind my just commenting on some of your earlier statements about morale. I agree with you about the historical fact in terms of morale in Flyer but I think there is one major difference at this time that there really has been and is a cloud over the future of Flyer. That has been translated significantly into the kinds of questions and kinds of problems faced by management, middle management and people on the shop floor and to try to remedy that, we've introduced a process which I don't think has been done before where we meet with them regularly twice a month. I meet with the union people and middle management. I've been trying to do that on a very regular basis to keep them as informed as possible, and I think that is a little different from

what you were saying and I agree with you that there were conditions then that caused problems. There was an article, I think, in Maclean's last year where they concentrated on the top management where we've had eight presidents in 10 years. That I agree with you was certainly a major problem, but I have never seen quite the same concern expressed as I've done in the last six months by people lower down in the echelon.

MR. R. BANMAN: I would suggest to Mr. Jones that when you're losing \$18 million, there is a certain amount of nervousness everywhere and that's the first time that that amount of money has been lost in that magnitude, so I can understand that's a problem.

I wonder if there are any statistics available for 1984, and I would imagine - roughly what the payroll was at Flyer in 1984. What would it have been, around \$13 million?

MR. D. GARDAVE: It would be just slightly less than that. I don't have the exact figure at hand, because it's spread throughout the departments in our statements.

MR. R. BANMAN: I'll allow my colleague to ask a question.

MR. CHAIRMAN: Mr. Johnston.

MR. F. JOHNSTON: Mr. Chairman, Mr. Banman made the point that we from 1977 on were actively working to find a partnership or a sale for Flyer on the same basis that the government is planning to do at the present time, to maintain the industry in the Province of Manitoba and the jobs in the Province of Manitoba.

There certainly has been in the newspapers and there were questions asked in the House because of some of those articles that regarding Flyer either being sold or amalgamating with another company in the bus business or a company that would have experience in the transportation business. One of the reasons that Flyer needed a partner or somebody to take it over that knew the transportation business was because if it was a larger company, they would have the benefit of the technologies and research for future buses. They would have had the availability probably in the house to do market studies or possibly use consultants, I'm not saying they wouldn't either. They would have had their own research and technical staffs to produce a bus that would be in the market.

Now I realize just awhile ago, it was mentioned that other companies have had problems as well. After saying that, my question is this. We are now looking at 18 million this year, giving us a total deficit at the year end of \$51 million; a projection of a loss of another \$10 million during 1985 this year which would appear to be what would certainly bring us to \$61 million in deficit. Under those circumstances and the circumstance that the name Flyer has certainly been harmed within the industry, there is no question that because of the problems that we've had on warranty with buses, etc., we have developed not the best name and even though we have done a lot of work to produce a better bus - you know if you give a dog a bad name, you may as well shoot it.

The other thing is that we are in a position of it's much harder to gain your image back, than it is to get your image in the first place. What is being done - and I ask this specifically with the projection of a \$61 million deficit by the end of 1985 - by the government to stop this particular situation? It would appear here that we'd be better off to pay somebody to buy it than to keep pouring money into this bus company year after year; especially with a projection that we have for 1985. We have a situation of whether we are producing a good bus or not, of having to regain our image. We have a projection that the industry is down at the present time, so what is being done to stop this?

Now the Minister says that he cannot advise us as to negotiations. I'll accept that and I'm sure the opposition will accept it if things cannot be brought to light because it might harm some of the negotiations, but we have a problem here. This is now worse than Saunders Aircraft ever was. I think we were talking about \$42 million, \$45 million over the years with Saunders. We're now talking \$61 million by the end of 1985. What is being done to stop this particular situation?

HON. E. KOSTYRA: As has been indicated, for the last number of months we have been very actively pursuing the matter of divestiture and/or merger of Flyer. The government's position is that the present situation cannot and will not continue. Since the most significant deterioration that came to a head last year, we have been actively pursuing the question of divestiture or merger.

As was said by Mr. Jones, the report that was done on marketing shows that the bus market throughout North America is rather flat. There is little, if any, growth in it. There is significant over capacity in the industry. There has been a number of European companies that have moved into the North American market in the bus and related truck industries which makes competition obviously very fierce in terms of sales.

An additional factor is the protectionist measures that presently are in place with respect to the Buy American Program in the United States, and there are fears and some moves in Congress to, in effect, expand those protectionist measures which would make a significant part of the North American market less attractive or more difficult for Flyer to enter into.

It's our view that in order to succeed, this industry has to be part of a more integrated operation; that simply having an operation building urban buses in the present context will not be able to continue. The hope is that we will be able to merge or divest Flyer into an operation that will be involved in a variety of related areas, and that is where we've been focusing our efforts in terms of the divestiture merger options. I can't get into the details obviously of who we're dealing with. We have been involved with close to 20 interests, in terms of Flyer, of which I would categorize about eight or nine of more active interest and a smaller number that are under active consideration at this point in time.

The position of the government is that we cannot allow for the present situation to continue and we will bring to resolve the future of flyer within a matter of months.

I might just also comment on Mr. Banman's comments with respect to this same issue. He indicated that for

four years his government attempted to do that and was not successful. I had a hint that it was not successful because of the opposition. I don't want to minimize the problems of Flyer, the present situation, nor am I going to suggest that in any way that this government, the present board, the present management, the present employees of Flyer are not responsible for their actions; but to suggest that for four years when he was in government he was unable to deal with it because the opposition, I think, is also not dealing with reality.

I think the difficulties and the problems with Flyer are longstanding and one that has to be shared by all those who had been involved. A lot of the warranty claims that we're dealing with now are not on buses that were produced in the last three years, rather buses that were produced by Flyer going back to 1978, so the unusual warranty provisions that we're dealing with this year of five-odd-million dollars and a similar amount last year go back to buses that were produced a good number of years ago.

I must say that Mr. Johnston is certainly correct, that Flyer's image is not good in terms of the market out there but that's for obvious reasons in terms of the difficulty that it's had with the product and the fact that it is a corporation unlike other bus builders that are under different microscopes or viewed differently than if they were totally in private control.

The latest product has received a great deal of support from the City of Winnipeg, is accepted as, and I think the chief executive operating officer can comment on that by the City of Winnipeg as the best product that Flyer has produced and they're very satisfied with it, so we have been attempting to come to deal with the problems. In terms of the direct question, the government's position is that this cannot continue and we must bring to resolve within a matter of months the future of Flyer.

MR. R. BANMAN: Mr. Chairman, I don't want to belabour the point either of the statement I made earlier because I think that we're here to deal with the report itself and get some specific and technical information from the staff and maybe the debate on the overall philosophical approach and the fate of Flyer should probably take place in the House.

I would just point out to the Minister that one of the contentions that I have had since I came into this Legislature in 1973 is that one of the reasons government can't run business properly is that because political considerations outweigh those of business considerations. I will say to the Minister quite candidly and admit that after we managed to move a few of the companies into private hands, and some of which are doing very nicely thank you; some others like Morden Fine Foods who had, if you look at the projections, were going to cost us \$1 million a year to run with a payroll of \$700,000, we sold, knowing full well, just keeping our fingers crossed that they'd run for awhile.

If the member doesn't think that the organizing of such demonstrations as McKenzie Seeds at the Legislature steps, the speeches made in the Legislature about the giveaways that the Conservatives at that time were doing with regards to the company; if he does not think that did not make us back off from moving

to the extent that we wanted to on Flyer, I want to tell him he's grossly wrong because we, on this side of the House, are also politicians and they did an excellent job in browbeating us. Mr. Chairman, I don't mind saying that I lost some of my nerve and the Government of the Day did because of the tremendous opposition and the political attack being taken by the opposition at that time.

This government has not faced that from the Conservative Party with regards to Flyer. They have had on this issue a honeymoon. There haven't been any demonstrations out front. They have had a free hand in dealing with this. That was not the case when we were in government. When he says we had four years, yes, we had four years to do it and we managed to privatize five companies and the people of Manitoba, the media and everybody know the turmoil that we went through, the demonstrations we had and the giveaway cries we had. I will candidly admit that definitely had a bearing on the decision of how fast and what you did with Flyer.

It is a situation where if you want any more graphic illustrations of why government should not be involved in businesses that are competing in the open market, here is one. I tell you if any Political Science student or anyone has any doubts on what they should be studying or writing a thesis on, I'll tell you Flyer would be a textbook case because it shows how political interference and how politicians make dismal business decisions because they are not based on economics. They're based on what the people will think. That is the bottom line and that's one of the basic problems at Flyer right now.

I say to the Minister again - I've repeated this many times - that he is in an enviable position of not having to face a demonstration on the steps of the Legislature when he even makes a statement - my goodness, if one of us had said something that Flyer's prospects of viability rest upon effective merger.

Mr. Chairman, this issue is long from being over and I know this isn't the place to discuss it. I'm going to cease from doing that but this is quite a case.

MR. CHAIRMAN: Any further questions?
Mr. Johnston.

MR. F. JOHNSTON: Mr. Chairman, the Minister has said that the government is going to do something to stop the situation at Flyer and the financial losses that we're taking. The comments that the merger or it should have, I think, the indication was that a more diversified or a more product or something of that nature, or even if it had somebody with technology and research.

The plant that Flyer presently operates in is probably at capacity when it gets to a certain number of buses of that type. Is the government considering a merger with anybody on the basis if the government would advance funds to facilitate the expansion required to make the company viable?

HON. E. KOSTYRA: No.

MR. F. JOHNSTON: In other words, the government has no intentions of advancing funds as they have with development agreements with other companies to see

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expansion on the basis of keeping the jobs here? The Minister has said no, they're not intending to do anything of that nature.

HON. E. KOSTYRA: No, the only thing I would just remind the member of is that there is a Federal-Provincial ERDA Agreement on the development of urban bus technologies and opportunities. It's a subagreement under the ERDA package which is available and would be available for any companies in Manitoba that are operating in the bus building industry or related component industries. Basically, the intent was for development of newer technologies in those areas.

MR. F. JOHNSTON: Then the Minister is indicating that they have been negotiating with the Federal Government as to what funding could be available to make this viable, if expansion would make it viable. Are there any negotiations going on at the present time that are dependent on the Federal Government providing funds?

HON. E. KOSTYRA: The agreement is in place with the Federal Government. The urban bus subagreement of the overall umbrella ERDA Agreement is in place and is available. The specific approvals under that agreement would be subject to specific programs being developed and proposals, so that is in place. Obviously any of the candidates that we are dealing with are interested in the possibility of getting further support for newer developments, newer technologies under that agreement and the Federal Government is aware of our discussions and how they may relate to that subagreement.

MR. F. JOHNSTON: I just have one other question. If my memory serves me correctly, the Minister stated in the House that he didn't give a specific date, I know, but he said he would be hoping to make an announcement toward the end of June as to the future of Flyer in the Province of Manitoba, whether it be merger or sale or whatever decision the government has made, the Minister has said within the next couple of months now.

This would seem that it can't be done by the end of June. The Minister is hopeful to do it within a couple of months, and if that doesn't happen, when will the Minister and the government and the Lieutenant-Governor-in-Council or the NDP Government say, this is it, one way or the other about Flyer Industries because I mention again, at the end of 1985, we will be in a \$61 million deficit position and the chairman of the board has said that he can't possibly predict into 1986. If we haven't got projections or predictions that we're going to make money in the future or in 1986, which is only next year, when will the government make a decision on this company?

HON. E. KOSTYRA: I believe the statements I've made that we'd expect to come to some conclusion by the summer period and the discussions and options are being reviewed. I would expect that it would probably be the latter part of the summer. One of the reasons is, frankly, that there has been within the last month

and a half the inclusion of a further interest by a property that requires, in my view, the serious review of that new interest.

MR. F. JOHNSTON: I won't belabour it. There's a new interest and if that doesn't go there may be a bite on another new interest. The NDP Government made a decision on Saunders Aircraft to stop. Is the Minister, in his position, realizing that there will have to be made a decision one way or the other within this year as to where we're going with Flyer in the future?

HON. E. KOSTYRA: Yes, a decision would have to be made within this year.

MR. CHAIRMAN: Mr. Ransom.

MR. B. RANSOM: Thank you, Mr. Chairman. I'd like to just briefly at least commend the Minister for being forthright in talking about the serious plight of Flyer Industries and I don't know whether it was he or Mr. Jones who used the term "appalling losses" with respect to this corporation.

He at least has been relatively straightforward, unlike the Minister in charge of Manfor, who doesn't seem to want to acknowledge the seriousness of the losses in that corporation. But I also can't resist referring the committee and the management of Flyer back to the discussions that took place last year on the 14th of June, Page 47. Mr. Clark was speaking and he said, and these are quotes lifted from what he said: "Flyer has experienced ups and downs over its history in the last decade because of a lack of an overall operating and long-term operational and strategic plan." And then he proceeded to say, "It's going to take 15 to 18 months, in our estimation, to get this thing stabilized and turned around." Further, he says that Flyer could turn the corner in the mid part of 1985 and stabilize its operations for the long term.

At that time, Mr. Chairman, I expressed the gravest concern about those kinds of reassurances and I'll read part of a paragraph from what I said at the time, "I'm pleased to hear the kind of thing that I'm hearing from Mr. Clark right now, but really, why should I believe that this company is going to turn around? Should I believe that because Mr. Clark is now the chief executive officer and that's going to be the difference between us losing \$12 million last year? Do I believe it's going to turn around because we've got the Minister of Industry, Trade and Technology as who he is and he's going to give direction? Do I believe it's going to turn around because there's something about a bus company being located in Winnipeg that makes it more competitive than anywhere else in North America? Why should I believe that the taxpayers should go on putting up money for this company and expect to see some return?"

So here we are a year later and, quite frankly, despite all of the assurances and good intentions, talk about mismanagement in the past, we don't even have Mr. Clark around the table with us this year who was going to turn around some of the mismanagement of the corporation, and by mid-1985 it was going to turn the corner.

Mr. Chairman, I don't believe a single assurance that I get anymore as to the future of Crown corporations

because we now have, if you total up the losses for Manfor and Flyer and McKenzie Seeds, we're up well in excess of \$250 million, probably \$300 million, if you take into consideration what's actually been written off. How long do we have to go on thinking that Crown corporations, operating in a competitive sector can actually make a profit for their owners who are the taxpayers?

I feel a great deal of personal frustration, as a member of the Legislature and as a member of this committee, to sit here year after year after year, and hear assurances that things are turning around; there's new management in place and this is going to make the difference; and we're not going to have to put up more money.

I guess it's perhaps finally coming home now to the public, and it's evidently coming home to the Minister and I believe he's been at least straightforward in saying that he's going to have to come to a decision before the end of this year, either to get some private sector money and management into this operation, or the government is faced with the decision of deciding that they're not going to put anymore money into it.

HON. E. KOSTYRA: I would just like to comment on Mr. Ransom's comments, and just bring his attention to the comments that I made in committee last year and reference on Page 50 of the reports, where I indicated that the government was still concerned about the future viability of Flyer and indicated that we were engaging in a number of activities that we felt would give us, for the first time, a comprehensive look at all facets of the operation, both internal and external, and as a result of that, that we were not closing off any options for Flyer.

He specifically asked me questions with regard to what potential options there were for Flyer, whether or not it was the intention of the government to allow it to continue as a free-standing, operating on its own, or whether or not we were prepared to look at other options, and I indicated at that time that all options were open.

I think to suggest that last year the government was suggesting that the future of Flyer was great is not quite correct. The CEO at that time indicated that he expected to see a significant turnaround in the operations, but we also indicated that we were just in the process of starting most of those studies at that time, looking at all aspects of the operation. As a result of that information and the serious deterioration in the operations, we have decided to embark on the course that we're on at the present time and that is to actively pursue merger divestiture and to conclude that as quickly as possible.

MR. B. RANSOM: Mr. Chairman, I believe the Minister is taking a realistic approach to this corporation and I think he has perhaps always taken a realistic approach towards it, but I point out to him that last year we were assured by the Chief Executive Officer that there was a reasonable chance that this corporation would turn the corner by mid-1985. We are in mid-1985 and it obviously hasn't turned the corner.

MR. H. JONES: If I could just add one comment, Mr. Ransom. I think I made a comment last year in

committee that we would all be deluded if we thought there was a quick fix to Flyer's problems, which were fraught with so many difficulties. At the time that committee met in June last year, frankly, the consulting process had really only just begun, at least begun in any intensive way, and I would say it was premature to indicate that kind of turnaround situation. But it certainly was not the view I expressed.

MR. B. RANSOM: I note, Mr. Chairman, that last year I had been asking Mr. Jones a series of questions about the financing of Flyer. In response to one question, Mr. Jones had said, "Frankly, Mr. Ransom, I don't believe so. I'd really like to address this issue in detail and get back to the chairman of the committee and to yourself. You've asked a number of questions around this issue which are interesting and require some better examination that I can give at this table." I don't believe that I have received that information from Mr. Jones. Perhaps he passed it on to the chairman of the committee and it hasn't come to me.

MR. H. JONES: Mr. Chairman, I'm sorry, I thought we had done that. Could you direct me specifically? I've got the Hansard copy here. Was it relating to the cost of borrowing for the Flyer investment? I'm sorry, I don't remember the specifics.

MR. B. RANSOM: It appears at the top of Page 51. It is possible that it has been prepared, Mr. Jones. I don't recall seeing it and I would appreciate it if you just would check your records and see if it had been . . .

MR. H. JONES: I certainly would.

MR. H. ENNS: Mr. Chairman, just one question in observation to further underline what my colleagues have already stated, that the opposition assures this Minister and this government that he and this government will have our co-operation in whatever steps he has to take or the government has to take in terms of resolving the ongoing problems with this corporation and the resulting hemorrhage of public funds.

My question to the Minister is, he's indicated in one instance that he recognizes the seriousness of the difficulties and intends to deal with it in months; in a response to Mr. Johnston, it was within a year. Some of us around the table recognize that this government and this Minister face other deadlines perhaps within that same time frame. Allow me to ask the Minister directly, does he intend to deal with the question of the future of Flyer before he and his government go to the people in the next general election?

HON. E. KOSTYRA: The member knows that I can't respond to part of that question, but I would expect that would be the case subject to whatever my Premier may decide in terms of a date.

MR. H. ENNS: I appreciate that question perhaps was not possible for the Minister to answer. But I think what is possible for him to answer: Is he prepared to offer any future government the same kind of assurances of co-operation in dealing with this matter as Her Majesty's official Opposition is now giving him?

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ON. E. KOSTYRA: As I fully expect to be in that position within that government, the answer is yes.

IR. CHAIRMAN: Any further questions? Is it the wish of the committee to pass the Report and Financial statement from Flyer Industries Limited—pass.

Well, if this is the case, then committee rise.

COMMITTEE ROSE AT: 11:20 a.m.