

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Thursday, November 2, 1989

TIME — 10 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. Helmut Pankratz (La Verendrye)

ATTENDANCE - 9 — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Derkach, Ernst
Messrs. Evans (Fort Garry), Kozak,
Lamoureux, Maloway, Minenko, Pankratz,
Praznik

WITNESSES:

Mr. Ted Chiswell, General Manager, Manitoba
Development Corporation
Mr. Marcel Taillieu, Chairman, Manitoba
Development Corporation
Mr. Alec Musgrove, Corporate Secretary,
Manitoba Development Corporation
Messrs. Neil Gaudry (St. Boniface), Gulzar
Cheema (Kildonan)

MATTERS UNDER DISCUSSION:

Annual Report of Manitoba Development
Corporation

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Mr. Chairman: I call the Standing Committee on Economic Development to order to consider the 1987-88 Annual Report of the Manitoba Development Corporation. I would like to invite the Honourable Minister to make his opening statement and to introduce staff members in attendance.

Hon. Jim Ernst (Minister of Industry, Trade and Tourism): Mr. Chairman, I thank Members of the committee for their indulgence in getting under way this morning.

First, I would like to introduce Mr. Marcel Taillieu, who is the chairman of the Board of the Manitoba Development Corporation. Mr. Taillieu is to my left. Next to Mr. Taillieu is Mr. Ted Chiswell who is the general manager of the Manitoba Development Corporation. Next to him is Mr. Alec Musgrove, who is the secretary; I believe it is the title of his position.

Mr. Chairman, as mentioned at last year's standing committee, the board has been changed from the names shown in the report. The new board consists of Mr. Taillieu as the Chair, Ms. Lorette Courcelles, Mr. Aaron Redekop, Mr. Lorne Sharfe, Mrs. Grace Gillespie, who is the vice-Chair, Mr. Arnold Morberg from Thompson, and Mr. Eldon Ross of Winnipeg. All are board members.

* (1005)

The current officers are Mr. Chiswell, as I said, the general manager; and Mr. Musgrove, the corporate secretary.

The most substantial involvement of Manitoba Development Corporation under Part I over the past three years has been the disposal of Flyer Industries Limited. The matters arising from this disposal continue to wind down with additional costs for the year under review being \$5.8 million. In the latest year just ended no additional costs were incurred at all.

It is believed sufficient monies are now held aside for any future warranty claims although that will prove to be seen over time.

The corporation continues to service the old Part I loans. All with the exception of one are being collected with no problem. Action has subsequently been taken on the one problem account which resulted in a new arrangement being made from the sale of an asset. Finalization is still to be reached. Therefore, the amount of the loss has not yet been established.

Under Part II of The Development Act, the corporation carries on its loan servicing duties on behalf of other provincial Government programs. These duties consist of legal and consulting services on the proposals, credit advice and loan payment following. The loan amounts outstanding under these Part II operations changed substantially depending upon the funds handled in trust from the various involved departments.

For all intents and purposes, the involvement with the Churchill Forest Industries, The Pas Forestry Complex, is now complete. As expected, the removal of the employee of Manitoba Development Corporation as trustee should be completed late this fiscal year.

The fiscal year 1987 was the last year this corporation provided the subsidy to the Communities Economic Development Fund for its operating losses. In the year under review, the province took over that obligation. Because some of the staff and other overhead are common to both corporations, some expenses are shared.

I want to offer my thanks to the board of directors for their input, guidance, and hard work on behalf of the corporation and the citizens of Manitoba. With that, Mr. Chairman, I will invite questions from Members of the committee.

Mr. Chairman: Is there somebody from the official Opposition that would like to make some opening remarks? No? Ready for the questions? Mr. Minenko.

Mr. Mark Minenko (Seven Oaks): I would just like to direct matters to some specifics in the report. I would like to perhaps first start with a question to the Minister

with respect to the appointment of new board members. I would like to ask him if he could provide the background and the reasons for the change with respect to the people who have been appointed and their background as to why these individuals were in fact appointed to the board of directors.

Mr. Ernst: First of all, in the year under consideration, Mr. Hugh Jones, who is the general manager, is also the chairman of the board. We thought that inappropriate, that the chairman and the general manager position, because of the type of operations that were going on and so on, should be separated. In the first instance, we looked for a new private sector chairman. Mr. Taillieu is a longstanding businessman in Winnipeg. He is a general contractor, primarily in sewer and water, although he does do road work as well, has been as I say a businessman in our community for a long, long period of time and has a great deal of experience, also served on the board ten or more years ago. He had some experience related to the specifics of the Manitoba Development Corporation. For that reason he was asked to chair the committee and had agreed to.

With regard to the other members, I can comment briefly, Miss Lorette Courcelles is an accountant from rural Manitoba. She runs an accounting practice in I believe St. Pierre, Manitoba, has some considerable experience in the area of accounting. It was felt it was appropriate that someone with the financial background accounting-wise would be an appropriate person to put on the board.

Mr. Aaron Redekop is a school principal from southeastern Manitoba as well. He is very interested in the affairs of the public and provides a perspective somewhat different from the normal business orientation, which is also good in our view.

* (1020)

Mr. Lorne Sharfe is a lawyer, also involved in the development of real estate, and has considerable business experience as well, which we thought would be of value both from the legal side and from his business experience side.

Mrs. Gillespie, the vice-Chair, is one of the owners of Coventry Realty in Winnipeg. She has some extensive experience in the real estate industry. As much of the board's activities particularly under Part II relate to loans, loan guarantees and things of that nature against real property, it was thought appropriate that someone from the real estate industry would be a distinctive asset to the board.

Mr. Arnold Morberg is the president of Calm Air Limited from Thompson. Again, a businessman of good stead and it was thought a representative from northern Manitoba would be an asset to the community as well as his extensive business experience, particularly related to the tourism industry where in fact many of the tourism agreement loans that are extended from my department in Government are handled by MDC.

Mr. Morberg would have experience in dealing with the tourism operators and things of that nature, and

has a reasonable handle on the affairs of the tourism industry in the province.

Finally, Mr. Eldon Ross, who is the president of Ross Electronics Supply in Winnipeg, again a businessman of many years standing and has a very good understanding of business practices and so on. I thought his experience would be valuable as well.

Mr. Minenko: Can the Minister advise us, how often does the board meet?

Mr. Ernst: Monthly.

Mr. Minenko: If I understand correctly then, the MDC is simply a clearinghouse for cash that Government puts out in various ways to various industries and companies throughout Manitoba. Is that correct?

Mr. Ernst: Mr. Chairman, the Manitoba Development Corporation operates under two distinct parts. Part I, which was the part that got into trouble in earlier years in dealing with the actual making of loans and so on, has virtually wound down. There are still the Flyer Industries things and a couple of other things to tidy up. Part II, under the Act, they act as the agents of Government in dealing with the kind of business development loans and tourism loans and so on that come through the Department of Industry, Trade and Tourism. They also act on behalf of one or two other departments.

I trust you understand that the Communities Economic Development Fund for which Mr. Downey is the Minister, and which actually still makes loans under their own name, operate with common staff between MDC and the CEDF so that Mr. Chiswell, while being manager of Manitoba Development Corporation, is also manager of the Communities Economic Development Fund. They operate in a common office.

Mr. Minenko: You mentioned under Part I that all the outstanding loans and so on are being collected, that there is a problem with respect to one. Can the Minister advise us what are some of the—he mentioned that as the negotiations have not been completed the actual amount cannot not be assessed at this time. Can he advise us as to what the original amount was? I presume it was a loan. What were some of the conditions of that originally?

Mr. Ernst: Mr. Chairman, I will ask Mr. Chiswell to comment in this regard.

* (1025)

Mr. Chiswell (General Manager, Manitoba Development Corporation): Mr. Chairman, the only loan that we have had difficulty with relates to a hotel in Minnedosa which we have now resold. There are certain lien matters that still have to be finalized and that is why the loss cannot be finalized at this point. I am sorry I do not have the original amount. I can get that for you though.

Mr. Minenko: Does the MDC Board of Directors provide advice to Government with respect to current trends

in various industries, other matters that the Government should be considering when administering any loans or offering any loans or terms of loans through any companies or industries in Manitoba?

Mr. Ernst: Mr. Chairman, the board provides me advice from time to time on a variety of matters. It is not common practice when the department is dealing with specific loans that we seek the advice of the Manitoba Development Corporation board of directors on any regular basis at all. Those are Executive Council decisions made by Cabinet and while their advice from time to time is appreciated, and Mr. Taillieu is no shrinking violet when it comes to giving advice. We do appreciate it, but I would say not sought regularly on specific loans.

Mr. Minenko: Does the board provide the Government with advice considering the fact that the Minister has outlined the expertise and backgrounds and the parts of Manitoba that are tied into this board? Does the board take a pro-active stance in offering suggestions to the Minister or other departments of Government as to what are some of the trends and industries that perhaps the Government should be considering?

Mr. Ernst: They have, Mr. Chairman, taken a pro-active stand on several occasions.

Mr. Minenko: Can the Minister advise us as to the—I realize the particulars may not be a matter for disclosure, but what is the thrust of their advice?

Mr. Ernst: Mr. Chairman, I think we can go on at some length I suppose in that regard. I have discussions at least monthly with Mr. Taillieu, if not more often, dealing in general terms. The board also sees certain directions that they would like to go. We have had some ongoing discussions in that regard and we will continue to have those. They also see certain areas that perhaps we need to be looking at and Mr. Taillieu has recommended from time to time items for my consideration as Minister. Whether they comment to other departments, I do not know. I have not had any discussions with my colleagues in that regard.

Mr. Minenko: Can the Minister or the Members here with him advise us as to whether they have provided advice to any other departments and what those departments may be?

Mr. Ernst: Perhaps I could ask Mr. Taillieu if he has provided any advice to other departments.

Mr. Marcel Taillieu (Chairman, Manitoba Development Corporation): No. I just sat on a committee with the CEDF and they were discussing, I guess I am free to say this, moving offices to the North and discussions like that. I was in on that discussion just as a member of the MDC. I was appointed by the Minister, Jim Downey. We had several meetings about how the CEDF should administer loans to the far North but it was just in a discussion stage. There were discussions made, I think I am free to say, they were talking about setting up an office in Thompson and things like that, that is all.

* (1030)

Mr. Minenko: Has the board of directors advised the Minister responsible for Rural Development (Mr. Penner) as to some things that he should be considering in the planning and operation for rural development in this province? It would be apparent from the Minister's responses to questions in Estimates and in Question Period that I think he certainly needs quite a bit of assistance. Has the board been giving any advice to him as to some of the areas they should be considering in rural development?

Mr. Chairman: Can I just interrupt at this point and ask Members to speak into their mikes, please, because everything shall be recorded? Go ahead, Mr. Taillieu.

Mr. Taillieu: I would like him to repeat that question, I was just talking to our men here.

Mr. Minenko: Okay, I would just like to ask the Minister or the staff present whether they have provided any advice with respect to development of economic policy to the Rural Development Minister. It has been plain from the Minister's Estimates answers to questions and from Question Period answers that he certainly does not have a plan in place right now. Certainly I would think that if the MDC with representatives from outside of Winnipeg with the expertise as cited by the Minister should possibly take a pro-active stance on this.

Mr. Ernst: Well, first, Mr. Chairman, you understand that the role of the board of the Manitoba Development Corporation is to operate the affairs of the corporation. That is their mandate, that is their mission. We have expertise available for a consultation from time to time and we do that. The board from time to time takes a pro-active stance somewhat beyond their mission which is quite fine too. We are interested in hearing advice and expertise from a variety of areas.

Also you have to remember, Mr. Chairman, that the Department of Rural Development is relatively new. Part of the operations of the Department of Rural Development relating to economic development were previously housed in my department. We had gone some distance in terms of the ground work relating to rural economic development strategy. I had conducted a series of conferences and meetings across the province throughout the winter dealing with a number of interested groups of people.

We had, not just with the regional development corporations but with groups of other business people and on a widely consultative basis, we simply said to the rural development corporations, please invite a group of people, the Chamber of Commerce, other interested individuals and communities and so on, without any real regard to specific people because you want to broadly consult with the community to find out how they felt about methods of rural economic development.

We had great success with those meetings. I was very pleased by and large with the kind of interest and the kind of commitment that people had in rural

Manitoba particularly relating to their own communities. When that function transferred to the Department of Rural Development it kind of put a bit of a hiatus there because the Minister who is now responsible was not the Minister who conducted all the meetings. So while the staff people who were associated with it were transferred to the Department of Rural Development as well, we had some extensive briefing sessions and discussions and so on.

The new Minister has to put a new face on what is happening and as a result that has been delayed somewhat because of his own orientation into the economic development side of that portfolio. As you know, prior to the change it was predominantly municipal affairs, relating to the good and efficient operation of municipalities and local government districts, as well as the whole assessment and taxation question. Because of the assessment question, and the very major problem associated with assessment reform in the province, and the fact legislation is before the House at the moment, has occupied the Minister of Rural Development's time considerably over the past few months in attempting to bring that legislative package forward. That has also put matters slightly on hold because the priorities have to be established. I think that once that is into the works that the Minister will have an opportunity now to perhaps concentrate a little more on the issues of rural economic development and at that time may wish to consult with a wide variety of people.

Mr. Minenko: It was earlier mentioned that the MDC also administers programs from other departments. What other departments would they administer programs from?

* (1035)

Mr. Chiswell: Mr. Chairman, they only administer one program from one other department and that is the Department of Co-operative Development.

Mr. Minenko: What are the terms of that administration and what particular program is it, and how extensive is it, and so on?

Mr. Chiswell: It is a very slow program that is about, I think this is the fourth year of its operation. It is a fairly small loan and the terms of our administration are to ensure that the appropriate financial statements are received. We monitor on a quarterly and semi-annual basis to ensure that the company is living up to the terms of its agreement with the province.

Mr. Minenko: If that is the only department that it presently administers any program, are there any other departments or programs that the MDC would potentially administer any programs from?

Mr. Ernst: Well, Mr. Chairman, that is a hypothetical question. I mean no one knows at this point whether the Manitoba Development Corporation is going to administer some program that might happen in the future.

Mr. Minenko: I meant that in the sense that again it is based on the suggestion that there are other departments from where programs would be administered by MDC. Have there been other programs in the past that MDC has administered for other departments other than the one mentioned by Mr. Chiswell?

Mr. Chiswell: Mr. Chairman, I want to make it clear that we do administer quite a few programs on behalf of the Minister's department as well as the Department of Co-op, but to my knowledge we have not worked for any other department.

Mr. Minenko: I am just wondering with respect to this report we have before us with respect to Flyer Industries. Tying in to the end of year as set out as March 31, 1988, what were some of the major developments with respect to the Flyer divestiture?

Mr. Chiswell: Mr. Chairman, the main activity in the 1987-88 year-end related to settlement of warranties and that continues to be our major thrust. There are still some parts of the agreement that expire in 1991 that require monitoring that we look after but basically it is to settle the outstanding warranty claims.

Mr. Minenko: Has the corporation done any, and I know it is speculative and hypothetical, but has the corporation, as I would think would be a standard operating procedure, done any projections in the future as to what warranty matters and issues are expected?

Mr. Ernst: Mr. Chairman, the question of warranty work is always subjective. Will parts fail or will they not fail? Will repairs that have been made in the past stand up over a period of time? I do not think anybody really knows. The projection has been one of the problems. This year it was close to not having a significant problem. Nonetheless the exposure is there over a period of time and the corporation, they get so busy they have to live with that.

If you remember the history of Flyer Industries, and I happened to be on the other end as a purchaser. I was with the City of Winnipeg at the time. Flyer Industries was producing buses that had structural faults. They would actually have a piece of the structure of the bus fail which required remedial action, warranty repair work.

* (1040)

As time went on and as more experience was gained and as designs improved and experience came about of course the structures got better and better. So you have some older buses that may have some potential problems, you have newer buses that hopefully will not have any of those potential problems.

As well, the corporation employed consultants from the Ontario Research Council and others, Wardrop here in Winnipeg to examine and design remedial work for these buses and hopefully they will be adequate to meet the needs until the warranty period expires.

In terms of projections I do not believe that it is reasonable to try and guess whether there are going

to be failures in those things or not. We hope there are none.

Mr. Minenko: What contingencies or what is the standard operating procedure then if, before the period of time expires at which the Government's obligation expires, is in place for the provision of funds to deal with warranty problems in the future?

Mr. Chiswell: Mr. Chairman, with the help of the current chairman and the board of directors we have established a policy on warranty and it goes like this. First of all, we have to determine if we are legally liable so we ask our lawyer if we are legally liable. If we are then we have a consulting engineer and we ask him to review what is required and to assess what the potential costs will be. Once the costs are known, we then take it to our board of directors who will either approve it or not approve it. So that is our procedure and that is our policy. That is how we handle all warranties.

Mr. Laurie Evans (Fort Garry): I would just like to follow up very briefly on the Flyer divestiture. In the covering letter from Mr. Chiswell it is indicated that the estimated total cost of the divestiture will be \$109 million. In the Schedule 3 it indicates the total to date of net divestiture of \$95 million. Do I infer from that, that differential of \$9 million has been since that interim period?

Mr. Chiswell: Mr. Chairman, I can refer you to page 4 of the notes of the financial statement. There have been some costs that have been paid directly by the province, and there are some costs that have been assumed by MDC. In order to quantify the total cost we have reported \$109 million, which includes the \$95 million by MDC and \$14 million by the province.

Mr. Laurie Evans: Is there a deadline as to when further obligations under warranties are expired, or has that already been mentioned as to when there is no longer any responsibility?

Mr. Ernst: The last warranty requirement will expire in 1993.

Mr. Laurie Evans: You would anticipate that any expenditures in that latter few years should be relatively minor. I am just interested in a generality as to how inclusive are those warranties. Are they something like a Chrysler warranty with the X number of miles and years on these buses, because as they get older I would assume the problems that are associated with them might be greater? Does the Government have a responsibility in that case or are these warranties of a much more minor nature?

Mr. Ernst: I will ask Mr. Chiswell to comment.

Mr. Chiswell: Basically, the warranties fall into two categories. One is the workmanship and operating warranty. The other is a design warranty. The design warranties tend to last longer than the, as we call them, the day-to-day warranties. I believe all of the day-to-

day warranties have expired. It is only the structural warranties that are left and as far as we know we have corrected in previous years all of the structural warranties. As the Minister pointed out you do not know until the end of the warranty period whether you are going to incur more costs or not.

Mr. Laurie Evans: What is the most recent date of the completion of a bus that is still a responsibility of the Government? Were the buses actually manufactured in 1987 that are?

Mr. Ernst: 1986, Mr. Chairman.

Mr. Laurie Evans: I would like to move on to one other area very briefly, Mr. Chairman, and that relates to the Schedule 4 and the assistance approved under Part II. Could the Minister indicate on that group before down as far as the Canada Manitoba Tourism Agreement, how many of those firms that have been granted assistance are actually out of business now?

Mr. Ernst: If you will give us a minute.

If I could ask Mr. Evans for final clarification? Are you referring now for those loans given under Schedule 4 starting on page 12?

Mr. Laurie Evans: Yes, looking at page 12 through to two-thirds of the way down on page 14. The reason I ask that question is I am sure that the Precise-to-Form Castings, which was granted an \$800,000 loan, is out of business. Are there others in that category?

Mr. Ernst: Yes, Precise-to-Form is one. We do not have exactly the information that has been requested by Mr. Evans although to the best of our knowledge I believe there is only Precise-to-Form that has failed.

Mr. Laurie Evans: Taking that then as being the likely answer, can the Minister indicate exactly what the status of that \$800,000 to Precise-to-Form Castings Incorporated is? Is that then an \$800,000 loss suffered by the Government in this case or is it part thereof?

Mr. Ernst: Mr. Chairman, Precise-to-Form Castings is in receivership. Any potential recoveries as a result of the security taken has not yet been determined in the overall context of it. It only happened I think two months ago, so that we are not yet in a position to know where we are at with regard to that. Rest assured, it is not all going to come back I do not think.

Mr. Laurie Evans: In the decision to make these loans, I appreciate that in the case of this specific one, that \$800,000 is a relatively small portion of the total investment that went into that company. Does the Government in fact have any input into the decisions as to what happens to that company once it moves into receivership, or does the Government in fact have any input into the decisions as to what happens to that company once it moves into receivership, or is the Government strictly passive in this type of a situation?

* (1050)

Mr. Ernst: Mr. Acting Chairman, the Government has the permission of a secured creditor, the same as any other secured creditor, for the corporation. It was a loan granted to the company. It would have a position no different. We would participate in search of our funds as long and as hard as we possibly can.

Mr. Minenko: With respect to the same schedule previously referred to, were the various loans made to these various companies made for a particular project that they were working on or something specific that they wanted the loan for?

Mr. Ernst: I refer you to the Manufacturing Adaptation Program which is the majority of the loans made. The Manufacturing Adaptation Program provides two things to existing companies. Firstly, it provides a grant up to 50 percent of the cost of a feasibility study to upgrade manufacturing capabilities. Following that, assuming it is a positive report, then we provide up to \$50,000 or 50 percent of the cost of the acquisition of new modern equipment to upgrade and modernize operations. So that in those cases generally speaking, modernization of equipment is the reason for the manufacturing adaptation loans.

Under the Jobs Fund, Mr. Chairman, I cannot really comment on all of them; of course, all of these were made prior to our coming into office, but I do know for instance in the case of Burns Foods it was for an expansion of their plant operations here, it included building and equipment. Dominion Malting Limited was building expansion to allow them to produce more malting barley. East-West Packers, I believe, was equipment upgrading. Fripp Fibre Forms was a new plant. Precise-to-Form was a new plant, and the Small Business Growth Fund, well, we can discuss that in Estimates if you like when we get there, but the Small Business Growth Fund is a Venture Capital corporation.

Mr. Minenko: Is there in place a procedure by which MDC monitors and follows its money through to ensure that it was actually spent on what it was intended to be spent?

Mr. Chiswell: Yes, we have a policy whereby we do not disburse unless we see copies of cancelled cheques with appropriate invoices, that kind of thing.

Mr. Minenko: Have all these companies then in fact provided the same, or are there matters outstanding or matters in dispute with any of these companies?

Mr. Chiswell: No, Mr. Chairman, there are not.

Mr. Minenko: Dealing with the Canada-Manitoba Tourism Agreement, I am just wondering if the same terms and conditions apply as under the Manufacturing Adaptation Program, the Jobs Fund. Is there a flow through program in place for monitoring and so on?

Mr. Chiswell: Yes, there is, although our agreement with the department is slightly less. We do not have the same client contact under the Tourism agreement that we do under the other agreement, but we still ensure that before any funds are disbursed, and this program has pretty well expired now, but we would still ensure that there is proper documentation before funds were disbursed.

Mr. Minenko: Is there any litigation or anticipated litigation the MDC was looking at with respect to any of the outstanding matters that might be in place for various companies that they provided services to?

Mr. Chiswell: Mr. Chairman, as part of the normal collection procedures, on some of the loans we would be taking the normal collection steps. There are very few that are in that situation. I would like to point out that really we are operating for the department and, in concert with the department, those steps would be taken.

Mr. Chairman: Any more questions to the report? Well, if you have some more questions we will gladly wait, no problem. Anybody else have any questions?

Shall the 1987-88 Annual Report of the Manitoba Development Corporation be passed at this time—pass. The report is passed.

Committee rise. Thank you.

COMMITTEE ROSE AT: 10:56 a.m.