

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES
AND NATURAL RESOURCES
Thursday, 4 June, 1987

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. C. Birt (Fort Garry)

ATTENDANCE - 11 — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Doer, Penner, Schroeder, Hon.
Mrs. Smith (Osborne), Hon. Mr. Storie
Messrs. Enns, Filmon, Maloway, Orchard, Scott

APPEARING: Mr. C. E. Curtis, Acting Chief
Executive Officer, MTS

MATTERS UNDER DISCUSSION:

Annual Report of Manitoba Telephone System

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MR. CHAIRMAN: Committee, come to order.
Mr. Minister.

HON. G. DOER: There's a number of questions that we took as notice dealing with MTX and I'm pleased our Acting CEO is here for MTX. Prior to going into the specific answers on MTX, there are three on MTS that were requested by the committee. I would like to say that the Public Utilities Board has come down since our last hearing with a decision on the rate increase. There are a number of what I would consider to be fair comment and criticisms of the Telephone System that we certainly identified at our committee meeting some two weeks ago, in terms of the challenges for the Telephone System.

Mr. Chairman, I believe that many of those items, and especially the budgeting items for staff, where we only calculate staff on the basis of pay cheques, rather than staff years, it's an issue we've been dealing with the last three months, and the whole internal budgeting process. We're dealing with some very serious internal auditing issues now at the Telephone System. With Mr. Fraser as the new Vice-President of Finance, we consider those to be legitimate challenges placed before us by the Public Utilities Board and we have undertaken many of them prior to the decision of the board, but will continue to work on that and report to the committee.

Mr. Chairman, the MTX options for withdrawal was raised as a question at the last committee hearing; the second issue raised was the disposition of MTX's investments in Saudi Arabia; the third question was the specific question on the exercising of guarantees with the MTX Saudi operation; and the fourth question was the specific breakdown of the \$27.4 million which was requested on May 28.

In addition, Mr. Chairman, there was a question on the Swiss francs that's still outstanding in terms of borrowing authority, and on the Public Utilities Board hearing dates.

I should say that the RCMP investigation has been a question under notice, as well, and that investigation continues. I can say to the committee it is at a more advanced stage than it was at the last point, but it is not concluded.

Mr. Chairman, I would then like to have Mr. Curtis, the Deputy Finance Minister, Acting CEO of MTX, review the questions that I've noted and I would ask the questions be read into the record because I think they're fairly serious issues that have been raised in the public arena and I would ask Mr. Curtis to read those, please, into the record.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Just a question to the Minister, if my memory serves me correctly, you indicated the possibility of the July report by the RCMP?

HON. G. DOER: We hope that the investigation will be concluded in June; so July would give us some dates. But, as you know and as I've said before, we have some administrative control of the wind-down of MTX, getting our Deputy Finance Minister into Saudi Arabia to try to wind it down and we have less control over the implementation of an investigation of the RCMP, but they are at a more advanced state. I'm hoping it'll be concluded as shortly as possible. I know there are individuals that are affected by it, and I think it's important that it's completed.

MR. D. ORCHARD: But the bottom line question being, are you expecting to be able to table that RCMP report in July?

HON. G. DOER: To the best of my knowledge, the investigation is in its ninth inning, if I can use a baseball vernacular and whether it's required to go into extra innings is a decision the RCMP will have to make. I'm hoping it will be done for July, yes. Perhaps the Attorney-General, who is more conversant, may want to . . .

MR. CHAIRMAN: Mr. Penner.

HON. R. PENNER: I think that's reasonable. I just wanted to indicate that we shouldn't create any misapprehension inadvertently. It may not be possible, because it's up to the RCMP primarily to table the RCMP report. Whatever the results are of the investigation, certainly will either be tabled or made known, as the case may be, depending on whether the Legislature is in Session.

But I don't think we can give an undertaking at this time that the whole RCMP report can be tabled. If it

can, it will be, but that depends on the material contained in it, some of which may relate to confidential sources.

MR. D. ORCHARD: So are we then to expect that, upon receipt of the RCMP report, presumably the Attorney-General, or some member of the government, will receive the complete RCMP report. Can we assume from that that very shortly thereafter, like within a day or two at the most, that we would have public release of that? It's not the intention to delay release of that in any way, shape or form, I presume?

HON. R. PENNER: I think the normal course would be that certainly we would be more than anxious to release the bottom line, in this sense. If the report recommends charges, then the normal course would be to have that reviewed immediately by the Deputy Minister or the Assistant Deputy Minister, Criminal Justice, and the Director of Prosecutions. They would be asked to review it on an urgent basis and say yes or no, as the case may be. We would normally go by their recommendations on whether or not to launch a prosecution. Obviously, in the converse situation, if the report did not recommend prosecutions, it would be possible virtually to meet the one or two days that the Member for Pembina suggests; otherwise it might be a week.

MR. D. ORCHARD: That's it? Thank you.

MR. CHAIRMAN: We're now going to reading in, I think, of some answers, just for the record.

HON. G. DOER: Yes, I think it's important, the first document is Options for MTX Withdrawal from Saudi Arabia. I'd ask Mr. Curtis to please . . .

MR. CHAIRMAN: It's dated June 2, 1987, on Coopers and Lybrand Consulting Group stationery and it would appear to be signed by, or at least there's a D. Elliott's name on the last page.

Mr. Curtis.

MR. C. CURTIS: Yes, Mr. Chairman.

In the committee meeting held on May 21, 1987, the following question was asked:

"What persuaded you, Mr. Curtis, and Coopers and Lybrand, that there would be no value to pursuing collection of accounts receivable above the value of the guarantees that we had put on notes payable with retired accounts receivable?"

I would like to elaborate on my responses to this question in order to clarify the circumstances and describe the rationale for the Coopers and Lybrand recommendation to proceed with the withdrawal agreement which was ultimately signed on May 2, 1987.

The Coopers and Lybrand Consulting Group played a major role in analyzing options and developing objectives and strategies for MTX board approval, regarding the withdrawal from MTX's investments in Saudi Arabia. One of the highest priorities was to maximize the returns on both the debt and equity investments in Datacom Division of ABI (Datacom) and Saudi Arabian Datacom Limited (SADL). Careful

consideration was given to the legal rights of collection of the accounts receivable from Datacom. The negotiating strategy included a willingness to use the full legal recourses available to MTX in the Saudi Arabian Courts. However, the following factors limited the practicality of pursuing this option.

The accounts receivable were unsecured by any assets of Datacom or SADL.

MTX could pursue the issue in Saudi Arabian courts for a judgment which would give access to the assets to the Datacom Division of ABI. However, legal counsel advised that there may be a number of defences available to ABI in such a court action, including the following:

Datacom's liabilities may be considered jointly shared by ABT and MTX, resulting in only one half of the total accounts receivable as being subject to collection in a court judgment.

Furthermore, ABI may argue that MTX, as manager of SADL and Datacom, had responsibility for control of the business at all times. In this capacity, ABI could have argued that decisions which resulted in such very significant indebtedness of ABI to MTX were made by MTX managers.

The claim could be disputed on a jurisdictional basis, and

The interest charges of \$1.4 million included in MTX's accounts receivable could be excluded from a judgment in the Saudi courts because interest charges are not normally recognized under Saudi business law.

The strengths of these defences could not be determined with certainty. However, in our opinion, there was little likelihood of a favourable judgment for collection of a significant portion of the total receivables. The factors which influenced this conclusion are as follows:

The nature of the debts was such that they would fall into the jurisdiction of a court which would take three to five years to reach a verdict. During this time, it is likely that the assets which would ultimately be made available, in the event of a favourable judgment, would deteriorate to the point where little or nothing would effectively be recovered.

Legal and other costs to pursue the court action, and to effect collection in the event of a favourable judgment, would further reduce the net amount received as a result of a court action. Continued unprofitable operation of Datacom and SADL would reduce the funds available for settlement of the debts of the business. As a result, the most timely method of settlement of the debts would produce the most secure return to MTX. There is also a continuing risk over time to losses resulting from unfavourable currency exchange fluctuations, particularly if the Saudi Arabian economy continues at its current rate of decline.

MTS/MTX employees on employment contracts in Saudi Arabia continue to work in the country under the sponsorship of MTX's Saudi partners. In the event of a court suit by MTX, ABI would terminate such employees. This would result in MTS/MTX being responsible for termination

liabilities for these employees, since they have each entered into contracts with MTX for their overseas jobs.

In summary, the option of legal action against the Datacom division of ABI was investigated. There appeared to be a significant risk that this would not prove an effective means of maximizing the recoveries of MTX's total investment in Saudi Arabia. On that basis, Coopers and Lybrand recommended a course of action which would ensure a higher degree of certainty in the amounts to be recovered. This was accomplished in the following characteristics of the agreement, which was signed on May, 2, 1987.

1. An initial amount of SR 1.0 million was received upon signing of the Agreement.
2. Certain liabilities were effectively transferred to ABI from MTX without a cash or credit settlement being required; specifically, this refers to the Epson (UK) letter of guarantee of \$550,000.00.
3. Bank guarantees were agreed to be provided for SR 1.2 million of the notes over the coming year.
4. The nature of the six guarantees received gives MTX access to a different court than that which would have jurisdiction over the collection of the unsecured accounts receivable. Legal counsel advised us that as a result of this form of agreement, in the event of default this matter could be processed in this new court of jurisdiction in as little as six months.

It is on the basis of the foregoing that we concluded in our report, tabled with this committee on May 21, 1987, that:

"This option will provide the most likely optimum financial return to MTX and result in an expedient withdrawal from its investments in SADL and Datacom."

This report was submitted by the Coopers and Lybrand Consulting Group - Darcy Elliott.

MR. CHAIRMAN: Is it the will of the committee to ask questions after each one of these answers or should we have all the answers put in and then at the end, ask the questions, if any, of the various answers that have been made?

MR. D. ORCHARD: Mr. Chairman, I'd prefer to pursue some questions right now while Mr. Curtis has this fresh in his mind.

MR. C. CURTIS: There may be some other things related to the disposition of the MTX investments, the next question.

MR. D. ORCHARD: You indicated "legal counsel advised". What legal counsel are you referring to?

MR. C. CURTIS: Legal counsel engaged by Coopers and Lybrand in Saudi Arabia.

MR. D. ORCHARD: Do you have that legal opinion capable to be tabled?

MR. C. CURTIS: I'm not sure . . . We have had discussions with them. I'm not sure if we have a written

legal opinion to that effect; I don't recall one. What I did do was, while I was in Riyadh, I met with our solicitors at great length and we discussed the aspects of the possibility of court action. It was their strong view that we would be much better off with this kind of arrangement.

MR. D. ORCHARD: If I follow Mr. Curtis' answer, he has no written opinion from that legal counsel that he can share with us. It's his impression that you're transferring to this committee.

MR. C. CURTIS: I'd have to check that, Mr. Chairman.

HON. G. DOER: It also was the assessment that was given to Mr. McKenzie from Coopers and Lybrand and Mr. Curtis. On that basis, Mr. Curtis and Mr. McKenzie proceeded with the strategy articulated in the report, based on the, not impressions, but the legal advice they received that Coopers and Lybrand had retained.

MR. D. ORCHARD: And you're going to pursue to see whether that legal advice is in written form and can be tabled with this committee?

MR. C. CURTIS: I'll do that, Mr. Chairman. As I mentioned, counsel is engaged by Coopers and Lybrand and they may well have something in writing, if we don't on our file.

MR. D. ORCHARD: If Coopers and Lybrand have it, I assume that it would be brought to committee.

MR. CHAIRMAN: Are those the questions on this particular matter?

MR. D. ORCHARD: No. Presumably there's some other information that might answer some of the further questions.

MR. CHAIRMAN: Should we proceed with the next answer?

HON. G. DOER: The disposition of MTX's investments in Saudi Arabia, June 2, 1987.

MR. CHAIRMAN: For the record, Mr. Curtis will be reading in MTX Interim Management: Disposition of MTX investments in Saudi Arabia. It's dated June 2, 1987, and it's on the stationery with the Coopers and Lybrand Consulting Group name on it. It is again submitted, I presume, by Mr. D. Elliott.

MR. C. CURTIS: Mr. Chairman, in the May 21, 1987 committee meetings, questions were raised regarding the ultimate disposition of the funds MTX has invested in Saudi Arabia. In specific Hansard reports and statement regarding, and I quote: "The Saudi Arabian sheik who took the \$20 million . . . "This matter was later raised again in the following statements: "After all, someone somewhere has availed themselves of 20 million of MTS money in Saudi Arabia, and I suggest that if in the course of Coopers and Lybrand and these hearings, we cannot have a clearer understanding of who benefited from our loss of 20 million, and we have

really done nothing to determine how we got into the mess and what the problems were.”

The following analysis is provided to respond to these concerns and clarify for the committee what funds were transferred to Saudi Arabia and how these funds were applied.

An audit of Saudi Arabian Datacom Limited, SADL, and the Datacom Division of Al Bassam International, Datacom, has not been conducted to provide assurances that the funds transferred to the business were not, in some fashion, transferred ultimately to the benefit of the Saudi partners.

In fact, as noted in our report of April 29, tabled with the committee in the May 21 meeting, we recommended against conducting such an audit. Reasons for doing so are as follows: SADL and Datacom financial statements had previously been audited by a public accounting firm for the years ending 1984, 1985 and 1986. MTX managers were responsible for the design of the accounting systems and periodically reviewed these systems to ensure their accuracy.

MTX managers have been in control of the business since its inception. The costs required to perform an audit of the five years of operations and the time delay necessary to conduct such an audit would have a significant impact on the net return to MTX on its withdrawal from the business.

Our reviews since September 1986 identified no evidence that MTX's investments were not consumed in the normal course of business as the venture operated unprofitably over the past five years.

The following is a review for the committee's information of how MTX's investment in SADL and Datacom was applied.

The March 31, 1986 MTX audited financial statements reported a total loss of 27.4 million. Of this amount, 20.6 million relates to MTX's investments in Saudi Arabia, consisting of Telecom Division of ABI, 2.3 million, and Datacom SADL combined, 18.3 million. The Datacom SADL provision of 18.3 million consists of, in Canadian, equity investment in SADL, including shareholders loans: \$2,681,000; in Saudi riyals: 7,550,000.00.

Accounts Receivable from Datacom SADL, for goods, services and salaries in Canadian: 13,473,000; in Saudi riyals: 35,757,000.00.

Accrued Interest in Canadian dollars: 1.4 million; in Saudi riyals: 3.711 million.

Accruals for 1987 - Operating and wind-down costs: 724,000 in Canadian dollars and 1,920,000 in Saudi riyals.

Of these total debt and equity investments of 18.3 million, 16.164 million represents funds sent to Saudi Arabia in the form of goods, services and salaries. That is, 13.473 million; and funds committed in the original investments in SADL shares and subsequent shareholder loans: \$2.681 million.

Due to exchange rate fluctuations, timing differences and unreconciled discrepancies on the books of both Datacom and MTX, this \$16.164 million - approximately 42.875 million Saudi riyals - is recorded on the books of SADL and Datacom as Saudi riyals - 40,835,000.00. This discrepancy of Saudi riyals, 2.05 million, has not been reconciled in detail, although an exchange rate fluctuation of .019 - that is from 3.77 to 3.96 - could account for this difference.

The total funds transferred from MTX to Saudi Arabia of Canadian dollars - 16.164 million - has been used to finance the operating losses of the business and the purchase of assets.

Based upon the analysis provided in our April 29 report tabled with the committee on May 21, the total financing requirements of the combined business, Datacom and SADL, are as follows:

In Saudi riyals: Assets, Net Book Value - 28,868,000; Operating Losses - 24,746,000; total Saudi riyals: 53,614,000.00.

In Canadians, at a rate of 3.77: Assets, Net Book Value - 10,883,000; Operating Losses - 9,329,000; for a total of 20,212,000.00.

Twenty-two million, four hundred and twenty (22,420,000) Datacom; plus 10,348,000 SADL; less 3.9 million inter-company receivables make up the amount that's referred to above.

MTX's investment of 16.164 million constitutes 80 percent of the total 20.2 million financing requirements of the business. The remaining 20 percent is financed by MTX's Saudi partner and by local suppliers in the form of credit provided on purchases of goods and services.

As stated in our April 29 report, "The real market value of the assets are significantly less than the values represented in the books of the business. As a result, withdrawal from the business with a recovery of \$3.5 million, was an appropriate course of action to maximize the returns of MTX. It does not leave MTX's Saudi partner with a disproportionate return on their investment. Rather, it places the burden of risk on them, since the real market value of the assets of the company are significantly less than what they are represented on the books."

In response to the statement noted earlier at the May 21st committee meeting, that MTX's Saudi partner may, in some way, have profited from MTX's \$20 million investment, the financial statements indicate that MTX's Saudi partners have not profited from MTX's investments and that there are, in fact, no winners in this venture. With this agreement, the Saudi partners have increased their investment by, Saudi riyals, 3.5 million, to a total of, Saudi riyals, 11.05 million. This is greater than the estimated value of the assets remaining in SADL-Datacom.

In summary, the funds invested by MTX in its Saudi business ventures were utilized in the normal course of operation of the SADL-Datacom business. These funds were utilized to acquire assets and to finance operating losses. The potential for recovery of funds which were not consumed in the normal course of operations, but which were used to acquire assets for the operation of the business is, as noted in our report of April 29, highly uncertain.

The May 2, 1987 agreement provides the optimum return to MTX and has the additional affect of placing the burden of risks of future losses on MTX's Saudi partner. The partner also incurred financial losses as a result of their participation in this venture during the past five years.

Submitted by the Coopers and Lybrand Consulting Group, Darcy Elliott.

MR. D. ORCHARD: The last statement on page 4, "The partner also incurred financial losses as a result of their

participation in this venture during the past five years." What's the extent of the Saudi partners' losses?

MR. C. CURTIS: Basically, it's their investment and advances in the company.

My recollection is that it's 3.7 million.

MR. D. ORCHARD: Are we talking Canadian dollars?

MR. C. CURTIS: I'll check that amount. We can provide the amount, Mr. Chairman.

MR. D. ORCHARD: Why I'm posing the question is that throughout the original report from last fall, throughout this report, this consistent reference to inaccurate information, financial information, records not being available. I believe you've answered in the past that you didn't have access to ABI books, and yet Coopers and Lybrand feel confident to say that the partner incurred financial losses and that stimulates my question. How much? How could you determine that without having access to the books? The books you did have access to, you claim were in such dismal shape you couldn't come to any conclusion from them.

MR. C. CURTIS: Of course they had an investment in SADL; they had put up capital for SADL. I did have access to Datacom books during the two weeks that I was in Saudi Arabia.

MR. D. ORCHARD: Those were our books.

MR. C. CURTIS: Sorry, SADL Com and Datacom ABI, both.

MR. D. ORCHARD: But, Mr. Chairman, consistently throughout the report, we are using as an excuse for not pursuing legal action, the fact that we ran Datacom. So those in fact were our books, not the sheik's books. But I mean, we can't have this both ways, saying that we had access to Datacom's books which were the sheik's and then on the other hand say we can't sue the sheik because they were our books. Follow the inconsistency?

MR. C. CURTIS: Not really, Mr. Chairman.

MR. D. ORCHARD: Sorry I interrupted. Mr. Curtis might have been going to finish answering a question there.

Mr. Chairman, in a summary, it appears as if the financial losses represented in the last page, page 4, that the sheik might be \$3.5 million Canadian whilst Manitobans are losing \$20.2 million or 20-whatever the number turns out to be, over \$20 million at any rate, in Saudi Arabia on a 50-50 partnership with the sheik. Is that a fair assessment?

MR. C. CURTIS: Certainly our proportion of losses is significantly greater. That's correct.

MR. D. ORCHARD: Mr. Chairman, this is a somewhat useful document, this last one, but we are in control of SADL and Datacom. We're considering them as two combined entities for which, if I go to the one statement wherever it is in the first statement, which said that

we can't sue the sheik because ABI may argue that MTX's manager of SADL and Datacom, etc., etc.

In questioning, to find out where the money went, we get this statement which tells us that SADL and Datacom owe us some money. That's very nice to know, but we knew that already. But when we had control of those two corporations and our employees were running the books, were doing the books, maintaining the financial records, why is not there an explanation of who owes the money to SADL and Datacom? Where's that explanation?

Why do we not have an explanation of this operation in Saudi Arabia that we ran? We've known for a long time that MTX is owed money by SADL, Datacom, Telecom Division of ABI, but it would be pertinent, in analyzing whether we've made the correct decision, whether Mr. Doer has made the correct decision, in cutting and running for something like a million dollars, to know who owes the money to us in Saudi Arabia.

What are the accounts receivable of SADL and Datacom, both of which we operated? Why is that analysis not available to this committee?

MR. C. CURTIS: Mr. Chairman, I did obtain and work with the accounts receivable on the books of both corporations, both operations, while I was in Saudi Arabia, and I have a reasonable analysis of who the specific firms that were our customers are in Saudi Arabia. It's by and large mainly large operations in Saudi Arabia, itself.

MR. D. ORCHARD: Those large operations, do they owe SADL, Datacom, substantial amounts of money?

MR. C. CURTIS: Quite substantial amounts of money, yes.

MR. D. ORCHARD: Are those customers of SADL and Datacom, the combined businesses that our employees manage, are they financially secure?

MR. C. CURTIS: That's a little hard for me to say, Mr. Chairman. As I said, I was there for a relatively short time and I worked with our accounting people over there and attempted to discover what kinds of problems there were with the collection of the accounts. You have to keep in mind that the economy in Saudi Arabia is very difficult and collection of accounts receivable has become much more difficult than it has been in the past.

In addition to this, there apparently were a number of claims against many of the accounts outstanding that had not been settled. The concern I had primarily was the fact that many of these accounts were very old accounts. In other words, there hadn't been a great deal of collections made on many of the accounts. I can't say whether this was because enough effort wasn't placed on it, or whether the counter claims made against the accounts receivable by the individual companies were such that they wouldn't pay.

MR. D. ORCHARD: Is an aged accounts receivable list for SADL, Datacom, available for this committee, showing us the value of the accounts receivable, the customer that owes us the money, the aging of that account. Is that available for this committee?

MR. C. CURTIS: I could provide the material that we have on it, Mr. Chairman.

MR. D. ORCHARD: Is that material complete, in terms of accounts receivable analysis?

MR. C. CURTIS: Mr. Chairman, you have to realize that when I was doing the analysis and working with Coopers and Lybrand in Saudi Arabia, as well as our counsel, we were working with the most current information that was available to us at that time and, as I recall, the material that we had was as at the end of November, several months behind, but nonetheless, it was relatively current.

MR. D. ORCHARD: But surely end of November financial information on accounts receivable would be sufficient, given that there was a directive from the Minister and the Government of Manitoba to cease and desist operations, so that that November data should be relatively current in terms of the accounts receivable.

MR. C. CURTIS: Relatively current, yes.

MR. D. ORCHARD: Could you give us - and I don't want an accurate figure to the last dollar, but could you give us an approximation of the accounts receivable to SADL Datacom that you're aware of?

MR. C. CURTIS: I'd have to go back into my working papers, Mr. Chairman.

MR. D. ORCHARD: Mr. Chairman, in this agreement, we are selling to our Saudi partner, who has presumably incurred a \$3.5 million loss, compared to our over \$20 million loss, we're selling him this company and presumably all of the assets, including the accounts receivable, for something in the neighbourhood of \$1 million Canadian. It seems to me that it would be very, very informative for Coopers and Lybrand, yourself and Mr. Doer, to know who owes the money to that company we've just sold for a million dollars.

If there's \$10 million of accounts receivable and the sheik can recover 10 percent of those, he's got his money back.

MR. C. CURTIS: Mr. Chairman, accounts receivable of course, are only one part of the asset picture at that time. The other area which, in my view, was as big or greater a problem, was with respect to the value of the inventory that was on hand at the time and, as well, the value or lack of value, perhaps, in the fixed assets that were on site.

MR. D. ORCHARD: Mr. Chairman, I guess - and this was a question I was going to get into at a later point when we got into the dealing with the report - but basically it seems to me, and I stand to be corrected as we pursue more information, that Coopers and Lybrand, Mr. Curtis, and the government accepted a snapshot asset evaluation picture. They didn't take a look at the operational side of the accounting for SADL-Datacom. They simply looked at the assets, which is only, if I understand financial accounting, one half of a financial picture. When you take a look at your assets

on one side, but your operational side, to know how your day-to-day operations are expending funds was never analyzed in a serious way; and without doing that, it seems to me that we've made a decision on the basis of incomplete information.

MR. C. CURTIS: We did have available to us, again, unaudited material regarding the operations to that date - that is November. So we had some idea of the trend with regard to operations of the combined operation. Again, it wasn't a very attractive picture and, of course, we knew what the audited results were for SADL for the years up to '86.

MR. D. ORCHARD: Mr. Chairman, we can pursue this line of questions at a later date if there is more information to be tabled.

MR. CHAIRMAN: We have more questions to be provided. Would this be an opportune time to do?

MR. D. ORCHARD: Yes, okay.

MR. C. CURTIS: There was a question at the committee hearing of May 21, 1987 from Mr. Orchard, and I quote: "I'd like to know the loss that is attributed to the Saudi Arabian operation of SADL and MTX's involvement in Saudi Arabia. I'd like to know the entire loss package here and what volumes of money were paid out as a result of presumably, and I'm speculating here, exercising guarantees on the Saudi shiek?"

The response is: "An analysis is attached which itemizes the portion of the projected \$27.4 million dollar loss that relates to Saudi Arabian activities. Inventory items purchased by MTX were sold by Datacom to customers in Saudi Arabia. In order to obtain the cash quickly, banks loaned monies to MTX against their accounts receivable. The banks required guarantees. These were provided by MTS and the province. Sufficient cash was not collected by Datacom on their accounts receivable and the banks required that the loans be repaid. Since the business did not have working capital, the banks required loans to be repaid.

"Detail is available in Volume 4 of the November 12, 1986 Management Audit of MTX, a report written by Coopers and Lybrand."

The statement that we have prepared: "MTX Telecom Services Inc. announces a 1986 recorded loss related to Saudi operations.

The projected March 31, 1986 amounts were as follows in dollars: SADL and Datacom operations, investment account equity method, 2,409 million; revised February 1987, 1,109 million. MTX's portion of SADL's operating loss, March 31, 1986, the projection was 272,000 and the same 272,000 is the revised. The inventory, 28,000 is the same as the revised. Accounts receivable March 31, 1986, 11,839,000 is the same in the revised; Accounts receivable, 1987, the projection of 3,033,000 is revised to 3,289,000; foreign exchange contracts, March 31, 1986 projection, 100,000, revised 140,000; the Epsom guarantee, the projection 550,000, the revised zero; Other, projection 46,000, revised, 50,000, for a total SADL and Datacom of 18,277,000 projection, and 16,727,000 revised. Telecom Division, accounts receivable, March 31, 1986, projection

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1,841,000, the same as the revised; accounts receivable, 1987, projection 462,000, revised 637,000. Total Telecom projected - 2,303,000, revised 2,478,000, for the total Saudi operations of projection, 20,580,000, revised of 19,205,000.

MR. CHAIRMAN: For the record, the material and information Mr. Curtis just read into the record, copies have been handed to all members of the committee. Are there any questions?

MR. D. ORCHARD: In your first line, Investment Account, where you have a reduction of \$1,300,000.00. Who lost that money?

MR. C. CURTIS: Mr. Chairman, that reduction is as a result of the sale of 3.5 million in Saudi riyals to the Bassams.

MR. D. ORCHARD: So that is the amount of money that we have yet to receive for sale of our operations in Saudi Arabia?

MR. C. CURTIS: Yes, Mr. Chairman, that's correct, partly yet to receive.

MR. D. ORCHARD: Mr. Chairman, accounts receivable, March 31, 1986, are \$11,839,000 and accounts receivable 1987 are \$3,289,000, presumably that leaves a total accounts receivable to the operation in Saudi Arabia of \$15,128,000.00. Is that correct?

MR. C. CURTIS: Fine, that's correct.

MR. D. ORCHARD: Mr. Chairman, perchance Mr. Curtis might wish to correlate the figure just tabled today with the figure on page 22 of the Coopers Lybrand report, the recent Coopers Lybrand report tabled last meeting, whereas they are doing a summary liquidation valuation, presumably of SADL and Datacom, which shows receivables to those two corporations of 4,472,000 Saudi riyals, which basically would be about 1.2 million. Now we've got 15.1 million. Am I seeing something that isn't there?

MR. C. CURTIS: Mr. Chairman, the reference on page 22 is regarding the receivables from other customers of the operation, not the amounts owing by the province, but to the MTX. Those are customers' accounts.

MR. D. ORCHARD: What are the accounts receivable of \$15,128,000 to SADL and Datacom operations that you've identified this morning?

MR. C. CURTIS: Mr. Chairman, that would include the amounts that were owing to MTX.

MR. D. ORCHARD: Pardon me, for maybe not understanding accounting, but how can monies payable by SADL and Datacom to MTX be called an accounts receivable to SADL and Datacom?

MR. C. CURTIS: Mr. Chairman, I guess we're looking at two different sets of records. The amount that is shown on 22 is the accounts receivable due to Datacom,

whereas the amount that we're referring to - and which is a receivable - on the statement we're just tabling is our accounts receivable, that is, the MTX's accounts receivable. On the books of SADL Datacom, those figures reflect as an accounts payable.

MR. D. ORCHARD: So, in other words, the numbers you've given us aren't the SADL and Datacom operations as is headlined, they're the MTX operations. Is that correct?

MR. C. CURTIS: Yes, that's correct, Mr. Chairman. The statement that we're tabling with this explanation relates to MTX operations.

MR. D. ORCHARD: So we're still down to really no answer as to what the financial position, who owes money to SADL and Datacom. We still have no answer for that. This does not tell us anything about our joint venture and the division of ABI that we ran and considered as one entity, this doesn't tell us a thing about that.

MR. C. CURTIS: Mr. Chairman, it reflects what the funding was for and how it developed over that period of time. Mr. Orchard has asked for the accounts receivable, the specific listing of accounts receivable, and we will attempt to provide this in as much detail as possible.

MR. D. ORCHARD: Mr. Chairman, that has to be extremely important. Again, I say that we've made decisions on the basis of a snapshot, which is an asset evaluation. We didn't go into the operational side presumably of SADL and Datacom, because the operational side, if there is a variance in the receivables as listed on page 22, that would substantially change the projected salvage value.

Because if I recall, and I presume my memory's correct, anything less than 30 days or something of that nature, we attributed I believe a 50 percent recovery on, accounts receivable in SADL and Datacom - that was the assumption made by Coopers and Lybrand in its report. Now, we've got tabled with us a document that says our accounts receivable in 1987 increased by \$3,289,000. Is that correct, Mr. Curtis?

MR. C. CURTIS: Which is that?

MR. D. ORCHARD: In the document you tabled with us this morning, you show accounts receivable, 1987 - now is that for the entire year from April 1, 1986 to March 31, 1987?

MR. C. CURTIS: That's correct, Mr. Chairman.

MR. D. ORCHARD: That's increased by \$3.3 million for rounded figures?

MR. C. CURTIS: Yes, that's correct, Mr. Chairman.

MR. D. ORCHARD: Now, presumably those accounts receivables to MTX would be on the basis of equipment shipped for resale by Datacom in Saudi Arabia which would then generate an accounts receivable, which

would have a certain recovery value - but yet, you know, we've got \$3.3 million in accounts receivable to MTX but we've only got accounts receivable - according to page 22 in the recent Coopers Lybrand - of 4.4 million Saudi riyals, which is, rough figures, \$1.3 million.

A MEMBER: Of liquid assets.

MR. C. CURTIS: Mr. Chairman, as I mentioned, that is the other problem; the fact that goods and materials were sent and their inventory at the time of our looking at the assets, wasn't very high. So there is a substantial inventory problem as well.

MR. D. ORCHARD: If Mr. Curtis has any more information he wants to table then we can get into some direct questions.

MR. C. CURTIS: Mr. Chairman, again on the PUC hearing of May 28, 1987 Mr. Orchard requested a breakdown of the 27.4 million.

Our response is:

A breakdown of the 27.1 million extraordinary item was included in Note 5 in the audited financial statements of March 31, 1986 and is reproduced below.

5. EXTRAORDINARY ITEMS.

Subsequent to the end of the fiscal year the government of the Province of Manitoba commissioned a management audit of the activities of the company. As a result of the audit it was decided that the company would be wound up into its parent and that the non-viable operations of the company would be discontinued. Accordingly, certain of the assets of the company have been written off, and a provision has been made for certain accounts receivable, for losses incurred during the time subsequent to March 31, 1986 and for the costs of winding up the operations, as follows:

Assets written off:

Investment in SADL	\$2,409,220
Investment in CIL/I-NET	2,867,724
Investment in ACT Technology	710,081
Deferred Development Costs	626,624
Inventory	27,537
For a total of	\$6,641,186

Amounts provided:

Accounts receivable	13,849,556
Royalty fee to CIL/I-NET	420,000
losses incurred subsequent to year end and costs of discontinuance	6,200,000
For a total of	\$20,469,556

The two combined totalling \$27,110,742

The remaining .3 million is the amount of the loss from operations for the fiscal year ended March 31, 1986.

The above analysis of the loss is grouped by accounting classifications. A separate analysis, by nature of activity, is provided below: (In thousands of dollars)

SADL and Datacom Division of ABI .	\$18,277
Telecom Division of ABI	2,303
For a total of	

Saudi Arabian activities	\$20,580
Cezar Industries - CIL/I-NET	2,868
ACT Technology	1,913
Cezar Industries Activities	4,781
Other	2,036
For a total projected loss of	\$27,397

MR. CHAIRMAN: The material Mr. Curtis just read in, identified as PUC Hearing May 28, '87, has been handed out to members of the committee. Any questions? If not, we'll proceed to the next answer.

I'm sorry, Mr. Filmon.

MR. G. FILMON: I wonder if I could just ask Mr. Curtis why the Telecom Division's losses, that being a division of ABI, are the responsibility of MTX.

MR. C. CURTIS: The Telecom Division, which is run separately from the Datacom Division and which is not part of the Datacom operation had been, over a period of time, supplied with goods and services through MTX.

MR. G. FILMON: Correct me if I'm wrong, though. It was not my impression that Telecom, in the same way as Datacom, was being totally operated by MTX personnel, that in fact, it really was basically a division of the sheik's company and that we were not operating it and wouldn't have the same responsibilities for losses as we do in Datacom.

MR. C. CURTIS: That's correct, Mr. Chairman.

MR. G. FILMON: How is it that we seem to have responsibility for some of the Telecom losses as part of the overall Saudi Arabian loss?

MR. C. CURTIS: The loss arises by reason of the fact that our accounts receivable hadn't been collected from the Telecom Division.

MR. G. FILMON: Then that begs the question, in the case of Datacom, presumably we didn't have a strong legal position to collect our accounts because we were responsible for those losses and those receivables being run up, we wouldn't have the same legal position in Telecom which was indeed an arm's length company, why couldn't we collect them from that company?

MR. C. CURTIS: I think that point is covered in the Coopers and Lybrand statement to the effect that it would be very difficult to recover from the Telecom operation. The financial condition, I believe, of the whole operation of ABI is not good.

MR. G. FILMON: Mr. Chairman, overall, and it more or less follows along the line of questioning of Mr. Orchard earlier, the reality seems to be that we are responsible for massive losses in the range of 20 million in the Saudi Arabian operations. The partner - so presumably equal partner - is responsible for about 3.5 million of losses. What kinds of legal arrangements that we entered into in this partnership could have caused it to be so one-sided in terms of our liabilities, our risk versus the sheik's risk?

MR. C. CURTIS: I think, Mr. Chairman, the biggest factor in that respect is that there is no adequate asset on which to try and recover. The fact is that the assets available to recover on are not significant.

HON. G. DOER: The other part of the question in terms of legal advice, there are two components to it. One is the type of legal arrangements we had, and I indicated at the other previous committee hearing that we are doing a tracking of and, as these reports come out, it becomes clear, especially not only in this project but in Cezar that, when you have 50 percent of the risk and 20 percent of the returns, it's you either negotiated a terrible agreement or you had terrible legal advice or you had both. It's clear, and we're doing a tracking on that.

MR. G. FILMON: I'm glad the Minister understands what I'm getting at. It's precisely the point that we were bearing a disproportionate share of the risk, and I want to know who were the people who negotiated that kind of legal arrangement on our behalf? I don't think that's been adequately answered to my satisfaction as to who it was. Was it the MTS legal staff themselves? Was it outside counsel that we hired to give us this outrageous advice, or who was it?

HON. G. DOER: Before Mr. Curtis answers in detail, there are two components to it. This is why we want to and we're continuing to pursue. One is, who negotiated it? Because it may have been somebody besides the lawyers who negotiated it, because they were horrible deals. I mean, if you have to pay 50, or in this case, 80 percent - a totally disproportionate amount of the money and have very little recourse later, it's a bad deal.

Now, the second thing is, did legal counsel - outside counsel, inside counsel - sanction those agreements? Did they raise the issues involved? We're doing a tracking of that issue. The third issue is the whole management of those arrangements. A lot of the arrangements, absolutely no on-site implementation of some of the arrangements that were made, so there are about three components to that question, and that's why I think they're valid questions, and those are the obvious weaknesses. Who negotiated them; who followed them up; and what kind of legal advice did we have on those projects?

MR. G. FILMON: It gets back to the point that was never adequately addressed initially about how we went into this situation. Presuming that we were going to be able to operate on the 50-50 basis and initially we operated, as I recall, almost a year essentially in the sheik's company with no legal arrangements that allowed us to operate and so we were essentially operating illegally in Saudi Arabia as I recall the flow of information that came through. For almost a year, under the guise of the sheik's company, and that's where that whole gap of knowledge and information is in the early stages of it.

Who, in heaven's name, was giving us the advice, or who was ignoring good advice if it were available, to suggest that we ought not to be operating on an illegal basis, that the whole arrangement of setting up

business in Saudi Arabia seemed to be very questionable to begin with and all of that? When is that information going to come to committee, because those are unanswered questions as far as I'm concerned from the whole process of last year's hearings?

HON. G. DOER: Part of the answers, probably - and we're building up part of those answers that will potentially go to court with the just cause dismissals, because obviously the five individuals who have been held accountable, including an on-site manager of this operation - I mean the operation was a fly by the seat of your pants, not even that kind of operation - it's clearly evident by all the information before us. The equipment was shipped out there randomly with no strategic plans, with no market plans. The equipment stayed there, it was sold at 10 cents on the dollar, it was sold and money wasn't collected, there was no follow-up in terms of the accounts. All these things are virtually the symptoms of a bad deal that was followed up in a poor way, and some of this evidence will come out.

Quite frankly, we have to protect some of the details of that in terms of the individual culpability and potential lawsuits.

MR. G. FILMON: It goes further than that, because presumably the Crown Investments Department had a person sitting on the board during that period of time. The ERIC committee of Cabinet was approving certain steps along the way in terms of additional capital and at a time when they were essentially operating illegally.

Where was the political responsibility? Where was the government supervision of this whole exercise? Are we going to get the answers on that as well?

HON. G. DOER: The November 21 report of Coopers and Lybrand, which evaluated all these factors, basically came to the conclusion that the Coopers and Lybrand Report, which has been called a thorough report, discussed the fact that the submission provided to ERIC to increase the capitalization, the process of providing for an additional investment of \$2 million to Saudi Arabia in 1985 raises significant questions about the adequacy of information provided to the MTS Board, the Minister of Crown Investments and ERIC to the profit and loss-sharing arrangements in Saudi Arabia between MTX and Sheik Al Bassam.

MR. G. FILMON: Mr. Chairman, that may be the case, that they now know what happened, but I don't believe that Coopers and Lybrand have reported to us as to how it happened or why it happened. You can say, and of course this is the foremost response to almost any problem in the world today is the lack of communication, you know the communication system, information flow, that answers problems of anything from marital breakdown to company failure. But I believe that it should be within the power of this Minister, if he has the political desire to do so, to trace, step by step, as to who was giving this advice and who wasn't accepting the proper advice. In fact, if some of these people are still working for the corporation, which they may well be, then I think that there is a whole unfinished chapter in this book and I'm not satisfied that the political responsibility has been adequately identified.

The Member for Wolseley was sitting on the board through much of this discussion, and on and on and on. Why are we not being told where the breakdowns occurred, who was deliberately misleading, who in this whole matter? I want to know whether or not this Minister has the courage to make public a lot of these things that may in fact be damaging to the political credibility of his colleagues and certainly may well be damaging to the careers of some continuing employees of the corporation.

But until this is identified, we may have these people sitting there, continuing to give bad advice, just waiting for us to get into other situations as a result of their incapability.

HON. G. DOER: There's no question, and I said it at the last committee hearing, Mr. Robertson and I are reviewing the whole legal area not only in terms of what arises out of the report, but other issues in terms of what gets referred to outside counsel, why, etc. We are working now with the fact sheet of who was involved on a superficial basis with the various projects.

The other component of that, and I know from past experience, if you negotiate a bad deal and a lawyer tells you it's a bad deal but you still decide to sign it - and you know, I've been involved where I've gotten legal advice from lawyers, taken it, or you know, the lawyers provide you advice. If you negotiate a bad deal and the senior management that the lawyers are answering to say, go ahead with it anyway, and some of those deals are obviously poorly negotiated in the initial stages, horrendously negotiated, where you have a situation where there's 50 percent money and 20 percent return, I mean, even the most novice of negotiators can understand that's a bad deal. That certainly was articulated in the November 21 report or, in some of the situations, if you negotiate a good deal and don't follow it up; the implementation in Saudi Arabia was deplorable. That's why Coopers and Lybrand said, they looked at suit, they looked at doing an audit for the last four years. They mention in the report; they looked at the issue of going back four years; they looked at liquidation; they looked at all the options and recommended the one which we took.

Now, if you have a bad deal to begin with you're not going to get a good deal coming out, and it isn't a good deal coming out, but it is the one recommended course of action we took based on the information that I think has been presented to this committee and information that was double checked by the Deputy Finance Minister on site in Saudi Arabia for two-and-a-half weeks, whose judgment, quite frankly, I respect.

MR. G. FILMON: Let me just say one thing. When we talk about negotiating a bad deal or signing a bad deal against good advice that the only difference is when that happens to anybody else in society as an individual or as a businessman, we end up paying for it ourselves and accepting the consequences of that. There's an unwilling taxpayer out there, a ratepayer who is paying those consequences and had nothing to do with it and had trust in the political responsibility of the government to ensure that such a thing did not happen.

What I want to know about this in general, because obviously we'll have to have a great deal more specific

information, but from perhaps Mr. Curtis' analysis he can tell us, how can it be that over a period of about three years, more or less, this \$20 million was frittered away in Saudi Arabia in these corporations that we were operating? The division of the sheik's company that we were operating, the jointly-owned company and so on, was it something such as we weren't charging enough for the services we were providing there? We weren't essentially reflecting our actual costs of services or we weren't marking up the equipment sufficiently that we were selling. Is that the only way we could beat the other major suppliers, the multinational companies who do business there was that we simply weren't marking up our goods, we were undercutting them, and in fact, losing money, every piece of equipment that we sold? Was it that we were selling to customers that we couldn't collect from because we didn't check their credit rating or we didn't have a proper legal agreement with them for the equipment that we were selling? What is the general source of the large portion of the losses? Has Mr. Curtis satisfied himself on that?

MR. C. CURTIS: Mr. Chairman, I believe I have. I worked very closely with the Coopers and Lybrand staff in Saudi Arabia, analyzing the accounts receivable, looking at the inventory. I think probably one of the more significant factors was the fact that the economy in Saudi Arabia right since the inception of the start-up of this business was going downhill. This, in turn, had an effect of not making it easy to collect accounts receivable. Of course, the sales targets that management had developed had not materialized. In other words, the sales weren't being carried on or provided as they had planned. This meant that a good deal of the inventory that management had on site was deteriorating and becoming less viable because of new technology that was being developed over that period of time.

So there are a number of significant factors that had an effect on the bottom line.

MR. G. FILMON: That doesn't really answer the question. Why were we continuing to sell to customers who couldn't pay for the goods and services?

MR. C. CURTIS: One other major factor, Mr. Chairman, is the operating cost of the business. The salary levels were extremely high and the margins were not sufficient to cover the salary costs and other costs.

MR. G. FILMON: Mr. Chairman, but that is so elementary.

HON. G. DOER: You're holding Mr. Curtis accountable.

MR. G. FILMON: I understand that.

HON. G. DOER: I was hoping you'd try to wind-down. It's dog food that won't sell. It wasn't a good operation. Coopers and Lybrand nailed it. We agreed.

MR. G. FILMON: I can sense the discomfort of Mr. Curtis.

HON. G. DOER: Yes, I don't think it's fair.

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MR. G. FILMON: But if it's not Mr. Curtis, then give me somebody else who will answer the questions. Without attributing any fault or responsibility to the person answering the questions, I'm trying to get an understanding of how this could continue to go on. Believe me, I attribute no responsibility to Mr. Curtis on this matter.

HON. G. DOER: I didn't think it was fair to Mr. Curtis. I know you weren't trying to do it. I know there's some frustration about what went on. Coopers and Lybrand identified five individuals who they felt had made major financial business decisions in a horrendous way that affected this operation and named the positions and the individuals and the incumbents in their report on November 21. Those are the individuals who they felt were accountable for this process and the government and the Board of Directors of the Telephone System took action with it. Mr. Curtis has had to clean up a terrible operation. He had a number of options, and we discussed them all with Coopers and Lybrand. Suing, going back for five years in terms of auditing, they mentioned that in the report, looking at collecting those accounts and whether they were just paper accounts versus real assets that he could get. I mean, how much can you sell a Malibu and a Xerox machine for - there wasn't much left over there - or the liquidation option? I say that in terms of - he took two weeks to look at it.

MR. G. FILMON: Mr. Chairman, I guess what this says to me is that it is just such an elementary lesson in why government should not be involved in business operating in a very competitive private sector environment.

A MEMBER: We've got more examples coming.

MR. G. FILMON: When they don't have the expertise amongst their staff to know that you have to put on enough of a markup to recover your costs, including the services that you provide in installation, backup, and maintenance, that all of those costs have to be taken into account.

Otherwise, what you're doing is every time you sell, just as we were for years with Flyer, every time we sell a bus, you know, taking money from the taxpayer in order to subsidize that bus to be able to sell to Toronto or Boston or Chicago or whatever and we have got the same thing in spades here.

Somebody's got to learn from that and this new Minister of Crown Investments obviously should take that into account, that there is no justification for using taxpayers' money to get into business in competition with the private sector, because it can't be done profitably for the people of Manitoba or the ratepayers of the Telephone System or any other Crown corporation.

HON. G. DOER: I find this discussion rather curious because I know that the major intrusion for the Telephone System - to use your language - the major removal of competition from the Telephone System with the private sector was done under the previous administration with the great number of personal

computers and projects that you went into. So it is not as if there haven't - in terms of the philosophical position, I find that rather curious.

Secondly, there's a number of other projects that were started pre our administration and continued on through our administration that have lost millions of dollars in the Telephone System, some of which we are going to reply to, some of which many people at this table have started.

I think we have to rationalize the mission of the Telephone System and I agree that - and I spoke with a group of electronics individuals last week - we have to rationalize where the public Telephone System starts and stops and where the private sector connects, and hopefully the private sector will connect and pay it a fair price.

We had a little bit of this discussion in telecommunications. I think we have to decide where we are going to go. Instead of keeping that area grey, we've got to be very specific of why we're going there and defend it before this committee.

MR. G. FILMON: The Minister will find me consistent on this point in everything I've said publicly, everything I've said privately, everything that's on the record in Hansard, from successive year after year after year meetings of this Committee on Public Utilities and Natural Resources, that we have no business in competition with the private sector where there is sufficient competition, unless it is essential for the Telephone System to do that, to maintain their offerings that they have to the public.

What happens is that once you accept that little exception, there was a great tendency on the part of those who were involved with the Telephone System to try and expand that. I believe that we tried as much as possible to limit that and that all of the limitations were taken off with the change of government in December of 1981. And in fact, if the Minister is going to tell me that we have another \$20 million dollar horror story coming out of our other areas of competition with the private sector, I'm looking forward to hearing that. But right now we know about one \$27 million dollar horror story which was started and required a change to the act and a Cabinet decision under the NDP administration. No question that it could not have been done without the complete support and the active, in fact, furtherance of the NDP government of that day. That's what we're talking about. We'll look forward to hearing the other horror stories that the Minister is going to unfold for us.

HON. G. DOER: And some of them were begun before the government changed, believe me, members of this committee. Starting from IDA on there's a trail of projects that have cost the public of Manitoba money. The slippery slope, in terms of moving into competition with the private sector was a decision that was made in 1980 or '81. In fact, I think it was made previous to this, the Member for Pembina, I think the Member for Lakeside was the Minister in terms of . . . - I'm sure you had a lively debate in your Cabinet, but you made the decision to go ahead with it, and you did make that decision.

We did say we'd account for that. We did say we'd account for it.

MR. G. FILMON: We'll look forward to the identification of the losses on these projects and we'll look forward to debating political responsibility for the operations of these particular projects. So far I haven't seen too much acceptance of political responsibility for the MTX fiasco which is clearly and totally within the purview and the responsibility of this NDP administration.

MR. CHAIRMAN: I believe we have some more questions to be answered.

HON. G. DOER: Well, perhaps it would be best to hold - there were a couple of other questions related to MTS. Perhaps it would be better to hold those and proceed with the other. I know . . .

MR. CHAIRMAN: Mr. Orchard, before you continue, I'm wondering if some of the other members of the committee would either cool it or step outside to carry on their conversations. Thank you.
Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, I just have one observation. On one statement made by the Minister, in which he said it would be a novice who would not recognize that by investing 50 percent in a technology, namely, Cezar Industries, by investing 50 percent of the money and only receiving 20 percent of the action, any novice could determine that that was a bad deal. Then Mr. Doer is calling a number of his Cabinet colleagues on the ERIC committee of Cabinet novices, because they approved exactly that.

HON. G. DOER: Again, we had the dealing with the capitalization of MTX, in terms of the information provided to ERIC, Coopers and Lybrand clearly state that the whole information was inadequate.

MR. D. ORCHARD: Mr. Chairman, the information that went to his Cabinet colleagues clearly showed that the investment made in Cezar Industries was 50 percent of the capital for 20 percent of the action. That was in the submission to Cabinet; that is the kind of information. This Minister just said any novice could be able to see it was a bad deal. Mr. Kostyra, Mr. Cowan, Mr. Schroeder, Mr. Parasiuk are now novices in this Minister's eyes, because they made that kind of a decision to Cabinet with that kind of information provided to them, information that this Minister just said a novice would be able to see it was a bad deal.

HON. G. DOER: Clear reports indicated that the information was inadequate. I've mentioned the person who negotiated, and I believe it was Mr. Plunkett, who was named in the report, negotiated the deal with Cezar and that's the individual clearly who provided the negotiated deal. But I did say that we would track the legal advice, vis-a-vis the business plans that were developed.

MR. D. ORCHARD: Mr. Chairman, I want to determine now from Mr. Curtis, whether he was in frequent contact with his Minister, with the Minister responsible, all throughout the period that you were involved as the acting CEO in the wind-down of MTX? Were there any

decisions that you made on your own without discussion with this Minister?

MR. C. CURTIS: Mr. Chairman, the bulk of the decision-taking on the advice basically of Coopers and Lybrand was done by the Board of MTX. Certainly we kept the Minister up to date on what was taking place.

MR. D. ORCHARD: Mr. Chairman, did the board to your knowledge make any decisions? Did they have a threshold dollar value where they would make those decisions without reference to the Minister?

MR. C. CURTIS: Mr. Chairman, does the member refer to the Saudi Arabian operations?

MR. D. ORCHARD: Yes, Saudi Arabian, Cezar, any of those decisions.

MR. C. CURTIS: There are no limits or targets set. I was given a free hand to negotiate a settlement. That is what I did and produced the results to the board.

MR. D. ORCHARD: Well, Mr. Chairman, if a million dollar decision was involved, was that something that you informed the Minister of, as an example? A decision involving a million dollars of exposure, a million dollars of loss, or a million dollars of involvement, would that have been discussed directly with the Minister to receive his political approval?

MR. C. CURTIS: Again, Mr. Chairman, it was the board that made the decisions, looked after the affairs; and it was the board that I reported to. The Minister was apprised of what was going on; he wasn't asked to make specific decisions.

MR. D. ORCHARD: Then I would ask Mr. Doer: Did you approve of all of the board decisions as Minister responsible?

HON. G. DOER: Mr. Chairman, I was involved in the broad strategic options, whether any of the options would be successful. I did rely, and I've said so in the House on a number of other occasions, on the advice I received from Coopers and Lybrand, from the Deputy Finance Minister, especially considering the fact that he was on site for two-and-a-half weeks in Saudi Arabia and had a hands-on experience with the potential options on behalf of ManitoBans. So I was involved to the point of following the negotiations in terms of the options available to us.

The advice he had - Mr. Curtis has used the term "free hand" - the instructions Mr. Curtis had were articulated on November 21 - the least costly wind-down of the MTX operations. It looks like Mr. Curtis accomplished that, in some cases, even less than what was projected by Arthur Andersen on the financial statements tabled in February; although I want to place a couple of caveats on it, a couple of things outstanding, plus we have the whole issue of the Sprint negotiations, which I should say to the committee, Microtel Sprint negotiations, there was a session that was held this Tuesday with that corporate interest in terms of the third major contract.

MR. D. ORCHARD: Mr. Chairman, Mr. Doer hasn't answered whether he approved of board decision in MTX, and I presume he doesn't to answer that, which is his right.

Can I ask Mr. Doer if he discussed the settlement with his Cabinet colleagues? Was this subject of Cabinet approval?

HON. G. DOER: Mr. Chairman, the decisions on the wind-down from MTX, the general number of the 27.4 was communicated to the public, and the instructions and the mandate I had was to come in with the number to the public and to the Telephone System as low as possible to the 27.4.

I did discuss it with the board of the Telephone System and the board of MTX; I discussed it with Mr. Curtis and I discussed it with Coopers and Lybrand. Quite frankly, matters of Cabinet are confidential, and you know that and so do I.

MR. D. ORCHARD: Mr. Chairman, we will have our outstanding debate on the responsibility of this Minister and his Cabinet colleagues at a later date. What I'm trying to find out from Mr. Curtis and Mr. Doer is how well-informed this Minister was, because in previous discussions we've had, Mr. Doer is quick to say, well, I read that piece of correspondence, and I did this. It seemed to me that he was quite highly involved, very hands-on, in this operation, and that's why I was attempting to see whether there was a threshold beyond which Mr. Curtis, as acting CEO, had to receive ministerial approval. I tried to determine from Mr. Doer whether board decisions had to receive his approval as Minister responsible, and I haven't had that clearly established whether any of those circumstances took place.

So what I'd like to ask Mr. Curtis is basis page 20 of the Coopers and Lybrand report, the paragraph on operating losses during liquidation indicates that in February of 1987 - this is some three months after we're winding down MTX operations in Saudi Arabia - our joint venture over there took on an \$8.2 million Saudi contract. They continued to sell.

Mr. Curtis, did you approve the completion of that \$8.2 million contract as acting CEO of MTX in February of 1987?

MR. C. CURTIS: Mr. Chairman, that related to a major tender that had been put out some time well before August, which was a firm tender and which we understood could not be rejected. We certainly would not have entered into proposals for tendering after the date that I was involved.

MR. D. ORCHARD: Mr. Chairman, that does not answer the question.

If I read what Coopers and Lybrand have said here, while current information is not readily available, records at December 31, 1986, show contracts of Saudi riyal 5.3 million and outstanding proposals of 34.2 million. Of these proposals, a major contract for supply of goods at a total value of 8.2 million Saudi riyal was secured in February of 1987.

Are you saying to me that when we bid on those contracts, presumably a call for proposal, you indicate

prior to August, are you saying to me that before having that accepted by the people to whom we made these proposals, that we didn't cease and desist all offers that were outstanding? Did we have a deposit on this offer? This appears to me that MTX in Saudi Arabia was pursuing on with business contrary to the August 25, 1986 statement by the then Minister, Mr. Mackling, saying it is our concern that there be no new initiative undertaken by MTX pending the Management Audit, where there are ongoing initiatives involving responsibility for completing undertakings that certainly can proceed after a review by Mr. Curtis and the board.

Now, I hardly think that simply bidding on a proposal committed MTX to anything. It says here that, even if that were the case, Mr. Curtis and the board will approve them.

So my question, Mr. Curtis, as CEO, did you approve that \$8.2 million contract secured in February, 1987?

MR. C. CURTIS: This actually was a contract or a tender let out by SADL, as I said, well before August. It was one that once accepted was required to be carried out. That's my understanding from the general manager of the SADL operation there.

MR. D. ORCHARD: Do you mean to say that we put out a tender without the qualifier that any or all bids need not be accepted?

MR. C. CURTIS: I'm not sure of the precise wording of the tender, and again, this is a tender put out by SADL, not by MTX, but my understanding is that if we had not proceeded with the tender there were significant penalty clauses. But again, I'm not entirely certain of what the precise wording of the tender was.

MR. D. ORCHARD: Mr. Curtis, appreciate my frustration, and you know over the years that I've been an MLA I have developed a respect for your judgment and ability and I'm not undertaking this as a personal assault on you, but Mr. Mackling in August 25, 1986 said that Mr. Curtis and the board will review any ongoing commitments.

My question is: Did you review this \$8.2 million contract that was secured in February, 1987?

MR. C. CURTIS: Mr. Chairman, we were aware of the items that were under tender, but again this was a SADL contract, not one that MTX had proceeded with and it was our advice that we had no option but to proceed with the approved contract.

MR. D. ORCHARD: Mr. Chairman, further, on August 25, 1986, Mr. Mackling has said, "That, Madam Speaker, the former CEO, Mr. Plunkett, will be assisting in providing Mr. Curtis with every assistance to ensure the directions that we have set for MTX, including a suspension of any new contractual involvements where there is not existing ongoing responsibility being carried out."

Now, \$8.2 million Saudi riyals - I don't know, I think that's probably in the neighborhood of \$3 million or \$2.5 million. Why is it that I can't receive the answer as to whether the board and the acting CEO were involved in making the decision on that? You mean our

employees in SADL, even though you say that was a SADL arrangement, all our people were running SADL. All our people were running Datacom. And it appears to me that in February 1987, after these kinds of directives have gone out, those employees were still ongoing, taking on business. If the board did not have the opportunity to approve that, there was absolutely no control placed on MTX in Saudi Arabia by this government during the wind-down period.

What makes it more distressing is when we go to page 21, we find that these contracts, the 8.2 Saudi riyals included, are going to lose us 1.8 million Saudi riyals or \$600,000.00. We took on a contract knowing we're going to lose money.

Yet we are assured by Ministers, by the political arm of this government, by a hands-on Minister that no other contracts are being entered into.

Mr. Doer, were you aware of this contract?

HON. G. DOER: The instructions that we had with MTX and the wind-down with Mr. Curtis was that any financial obligations we had, and obligations is one of the terms that we would try to negotiate our way out of them. Obviously, one of the major obligations we had was the Epsom guarantee that we transferred over the half-million dollar Epsom guarantee which was transferred over to the Bassam's in terms of the sale arrangement.

As Mr. Curtis has indicated, this one started pre-August. There were a couple of others that came to our attention. After November 21, I know we stopped all the shipments of material over there. We also got out of CCI with China; we got out of the Hong Kong proposal that we've discussed. We got out of any other outstanding major proposal consistent with the November 21 statement.

In terms of the specifics of this project, I'd ask Mr. Curtis to respond.

MR. C. CURTIS: Mr. Chairman, we did instruct staff not to seek any new contracts or go after new business, and not to undertake any business except where it related to existing commitments for contracts for equipment and so forth that was already on site with customers.

As I mentioned, this is one of the contracts that had been tendered sometime back, and which we were advised we could not withdraw from. I guess the other thing that you might say in defence of it is that in due course, when this contract is undertaken, it will at least eat up some of the non-flexible operating expenditures.

The operating expenditures that Mr. Orchard has referred to are, to a large extent, in place regardless of whether business is undertaken or not.

MR. D. ORCHARD: If you use Mr. Curtis' rationale in the last argument, then you would have accepted all \$34 million of proposals and cut your losses even further, if that's a valid argument. I don't accept that, with all due respect.

Now, what will get to the bottom of this is one thing. Can that tender and all of the details of it be provided to this committee so, indeed, we can see whether it was as ironclad as we are led to believe here today?

And, for the next time we meet, I want to have Mr. Doer check his notes to see whether he was involved in this decision to approve this contract . . .

HON. G. DOER: Well, I don't have to check. They wouldn't be.

MR. CHAIRMAN: Just a second.
Mr. Orchard, please finish.

MR. D. ORCHARD: Because in this original review of MTX, we were told of \$200,000 worth of sales on an ongoing contract and that was all that was identified in here. We were told that all other sales are not contracts. We are to, if I can follow - "including suspension of any contractual involvements" are the words of Mr. Mackling as Minister responsible - and yet we're faced today with a contract entered into in February 1987, and maybe the Minister could answer this question.

Is there equipment to be shipped to service that account?

HON. G. DOER: Mr. Curtis?

MR. D. ORCHARD: Well, Mr. Chairman.

HON. G. DOER: Well, no. You asked me a question to check my notes. I'm not going to play this game with you. You asked me to check my notes.

MR. D. ORCHARD: That's exactly the problem with your Cabinet. You never take responsibility for decisions - \$3 million worth of decision in this case. That's the same story we got from Mr. Mackling . . .

HON. G. DOER: I have the floor, Mr. Chairman, I believe.

MR. D. ORCHARD: . . . and Mr. Mackling resigned at MTS.

HON. G. DOER: I had the floor.

MR. CHAIRMAN: Mr. Orchard, please?
Mr. Minister.

HON. G. DOER: You asked the question in terms of my specific approval of this contract in terms of Mr. Curtis. The instructions we had and Mr. Curtis had with the staff were - and we stopped all kinds of shipments and got out of all kinds of projects. I do recall the major projects - the CCI, the Hong Kong proposal. Another shipment of goods, I think we talked about in December, and we stopped it. The only matters that were to continue were ones that we had specific obligations under.

MR. C. CURTIS: Mr. Chairman, again, I would mention that this is not an MTX sale or contract or agreement. It is one that had gone from SADL and was tendered well before August, and we were advised that it would be difficult if not impossible to reverse our tender.

Perhaps we weren't as concerned, given the fact that by February we were in the process of negotiating our disposal of the operation, and any losses on the books of SADL would not be our concern.

MR. D. ORCHARD: Well, Mr. Chairman, I can't get into the legal argument with Mr. Curtis or Mr. Doer, but it

seems to me that if you're hanging your hat on the fact that this was a SADL contract and really not MTX's, then why are we ending up paying for it?

You constantly were trying to have both sides of a given issue work to your advantage and you can't have it that way. Either we were responsible for SADL, and it's been admitted time and time again that our people ran it, our people managed it, our people ran Datacom, our people managed Datacom. We were entirely responsible for it and that's why we can't sue the sheik. Yet you're saying that those people were operating independent of MTX and you didn't know what they were doing. I simply can't accept that. This sort of hands-on management of Crown corporations that we're being promised by this Minister is nothing but a bloody farce. If this is an example of how he is able to control a corporation that his predecessor said, "Including a suspension of any new contractual involvements where there is not existing ongoing responsibility." We go and take on another contract to lose money.

MR. C. CURTIS: Mr. Chairman, the situation regarding this contract is that it's not starting until after the date of the sale. The contract will take eight months to complete, which takes it into the fall or November of 1987. Therefore, the bottom line of the last year that we were involved, that is 1986, is not affected by the contract.

HON. G. DOER: In other words, we haven't lost money on it?

MR. C. CURTIS: No, we haven't lost money, Mr. Minister.

MR. D. ORCHARD: Are we supplying equipment? Are we under any obligation to ship materials to fulfill this equipment because it does say a major contract for supply of goods? Does that mean that we are shipping equipment? Is that part of the obligation that we've got in approximately page - wherever I can find it here - where our obligations are spelled out?

MR. C. CURTIS: We have technical support with reasonable compensation.

MR. D. ORCHARD: Right, technical support.

MR. C. CURTIS: With compensation.

MR. D. ORCHARD: With compensation. Now, we'll continue to support the staff and MTS will not withhold technical support. But are there materials that we are shipping over there? So why this contract?

MR. C. CURTIS: Mr. Chairman, my recollection is that there is equipment from one Canadian supplier that Datacom itself has been negotiating with to have the goods supplied. But again, that would be paid for by Datacom, not by MTX.

MR. D. ORCHARD: We're managing Datacom; it's our company. This is the argument that we'd made that we can't sue the sheik, is because we manage and

provide the personnel for Datacom. Datacom and SADL are a joint venture, one and the same. Now all of a sudden we have Datacom buying direct. I'll await the details of this contract to see how skillfully hands-on this Minister has handled this issue so new in his career.

HON. G. DOER: Mr. Chairman, you know the Member for Pembina is trying to suggest a scenario in terms of hands-on, etc., that has not been articulated by the government. We have said we want greater accountability for Crown corporations, and that is what we've stated. That's what the government report on efficiency and effectiveness reported as well. We will get a report on that issue and how it affects the bottom line. I do have confidence in the business decisions that Mr. Curtis made in conjunction with Coopers and Lybrand.

The Member for Pembina has stated that the losses are going to be \$30 million or \$32 million. We have stated that they will be \$27.4 million, and we will work towards those. We have said that those are undefendable, and we have said that publicly. Mr. Chairman, Mr. Curtis worked under those difficult circumstances to get out of a very, very awkward situation. I respect the circumstances he was working under and the decisions he had to make.

We will get the specifics that the member opposite asked for, but my definition of working with people in Crown corporations is to have capable people like Mr. Curtis. He obviously had the negotiating mandate to get us out of Saudi Arabia in the most prudent manner possible. That has been ratified by Coopers and Lybrand, which the Member for Pembina has stated time and time again was thorough in its analysis of November 21 . . .

MR. D. ORCHARD: Don't get carried away with the "time and time again."

MR. CHAIRMAN: Mr. Orchard, please. The Minister has the floor.

HON. G. DOER: Well, I will get carried away with it, because I heard you use it for three weeks through November and December.

It was a thorough report, and they're providing thorough information back to the Member for Pembina. We have, in my opinion, the most credible Deputy Minister in government, a person who's been called upon by past governments to deal with these actions. I, quite frankly, am quite concerned about attacks on his judgment in terms of these decisions.

MR. D. ORCHARD: Mr. Chairman, as I explained, there's no attack on Mr. Curtis' judgment. There is an attack on two Ministers, one of them sitting in front of us, the other one, Mr. Mackling. Because Mr. Mackling was very specific, and I'll read it for you again so that you know, Mr. Minister: "There have been no new initiatives undertaken by MTX pending the management audit. Where there are ongoing initiatives involving responsibility for completing undertakings, that matter certainly can proceed after review by Mr. Curtis and the board."

All I'm asking is whether Mr. Mackling was telling us what, in fact, was going to happen and it apparently

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didn't happen, and I want to know why. That's no attack on . . .

HON. G. DOER: Mr. Curtis was operating under those instructions perhaps.

MR. D. ORCHARD: And I've asked Mr. Curtis if the board and he, as CEO, approved that \$8.2 million Saudi rial contract, because that's what Mr. Mackling said would happen.

MR. C. CURTIS: The requirement was that MTX undertake no new initiatives, and that's what we were trying to be very careful with. This was a contract which had been tendered well before that requirement. As a matter of fact, I'm almost certain it was well before August, at which time I was involved. That had been sent out for tender. Our advice was that we could not withdraw that tender.

MR. D. ORCHARD: Mr. Chairman, some general questions to Mr. Curtis on the Coopers and Lybrand Report, we have . . .

MR. CHAIRMAN: Mr. Orchard, I'm just wondering, it's about five minutes to 12. Are you going to . . .

MR. D. ORCHARD: Well, the committee doesn't rise till 12:30 p.m. normally, Mr. Chairman, unless we decide to rise early. Is that not correct?

MR. CHAIRMAN: We've been rising at 12:00 p.m.

MR. D. ORCHARD: But committee hours are from 10:00 a.m. till 12:30 p.m., are they not? That hasn't changed in the rules, has it?

MR. CHAIRMAN: Mr. Orchard, you have a series of questions. Are you going to be some time on them? I just want to get an idea what of our time frame is like.

MR. D. ORCHARD: I do have some questions that have to be clarified, and I would prefer to go till 12:30 p.m. and attempt to do that.

HON. G. DOER: We've been operating at 12:00 p.m. I have another meeting between 12:00 p.m. and 12:30 p.m., and another meeting after that with caucus. The last two meetings, we've been quitting at 12:00 p.m. I thought perhaps we could - perhaps we could continue for a few minutes. I don't want to waste time while we're discussing.

MR. CHAIRMAN: Okay, let's continue and see what happens.

Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, can Mr. Curtis indicate whether Coopers and Lybrand, in determining the asset values, did that with in-house staff from Saudi Arabia?

MR. C. CURTIS: Which asset values?

MR. D. ORCHARD: Well, I'm trying to find the exact page. They have basically indicated that there is furniture and equipment - page 18. They established values and they established a reserve for loss, including inventory. Did they do that with in-house staff?

MR. C. CURTIS: Yes, they did, Mr. Chairman.

MR. D. ORCHARD: Coopers and Lybrand then did not retain outside independent evaluators to put a value on those assets?

MR. C. CURTIS: Mr. Chairman, this raises an interesting point, because one of the options that we were looking at was to go into liquidation. I have to admit that I thought that was a good option to consider, and we did consider it very carefully. I went over that aspect of it with Coopers and Lybrand in Saudi and our lawyers.

I was told very clearly that there is no group of evaluators in Saudi Arabia. They don't have the same kinds of expertise that we have in North America. If evaluations were to be done, it would have to be done by fairly high-priced accounting staff, such as those involved with the firm of Coopers and Lybrand. This was one of the aspects that I found difficult to deal with, the cost that would be involved in undertaking a detailed evaluation of assets and disposal, because the disposal aspect is also an area that is not part of the operations in Saudi Arabia.

MR. D. ORCHARD: In a normal liquidation scenario, the commonplace - and I can't answer for Saudi Arabia - you seldom, I don't think ever, does an accounting firm do those kinds of evaluations. An accounting firm always brings in independent evaluators and appraisers because, in this case, we're dealing with presumably electronic equipment. Are we saying that Coopers and Lybrand in Saudi Arabia had experts on staff who could determine what was obsolete and what wasn't obsolete in terms of the inventory; that they could determine what the value of vehicles were; that they could determine what the value of office equipment, housing furniture and fixtures, office furniture and fixtures? They had experts on staff who could give that in-house appraisal?

MR. C. CURTIS: I would say that there is no operation in Saudi Arabia that provides that kind of service. Probably, they would be the best operation to undertake doing a detailed appraisal.

The assets were valued, by and large, on age-depreciated value. In the respect of the inventory, they probably had as good a handle on what could be sold and for what price as anyone.

MR. D. ORCHARD: Mr. Chairman, since the Minister's got a meeting that he wants to go to, I'll try to conclude fairly shortly. There were more questions that I wanted to ask before I concluded in such a manner today.

But in reading this report, Coopers and Lybrand, the second report, I believe that we have made a decision based on very, very inadequate information. I question the timing of the decision. First of all, we're awaiting an RCMP report which may well provide pieces to the puzzle that answer the question, could we sue. But

we've made a decision, we've made a deal prior to all the information being in, the RCMP being one of them.

We did not, for whatever reason, get an independent appraisal of the assets. We have used a professional accounting firm which has, I would suggest, frailties in terms of assessing the appraised value. It isn't done by any accounting firm that I'm aware of in North America to do their own appraising. They hire expert outside people.

There doesn't appear to be in this a significant or serious effort to find an unattached buyer for the operation in Saudi Arabia. It's not referred to in any substantive way in this report.

They appeared to take a look at liquidation, and we didn't pursue the liquidation report. Here is something that really intrigues me on page 26. Liquidation was not - page 26 was not the right quote. It is quoted earlier on where the argument against liquidation. It's concern by the Saudi partners that it would be subject to public and government scrutiny. Well, I simply have to ask the question, what were we afraid of in public and government scrutiny in the liquidation thing? Were we operating illegally in a number of ways in Saudi Arabia with SADL and Datacom? I don't know. But there does not appear to be too tough a negotiation with the sheik in terms of the dollar value that we've achieved from this company.

We've simply gotten from him the most we think he will pay without having access to his books, etc. We did not do, apparently, a substantial financial accounting in terms of the operation site. We did a point-in-time look, at least that's the way it was described last meeting by Mr. Curtis. There was no attempt to verify the operating structure of our own joint venture in Saudi Arabia.

The Agreement for Sale - and here's the interesting one, Mr. Chairman, - has no clause in it to protect the Telephone System and the taxpayers of Manitoba from a quick flip by the sheik. Because the moment this agreement is concluded and we get July 2, our notes, guaranteed, another portion of them guaranteed, that deal is cut in stone. Whether we recover the last series of notes that are unsecured or not, that deal is completed. And there's nothing to say that the sheik could not make a flip of that company for several million dollars and pocket it all. We have not included that if this business is sold a year from now, MTX will get 50 percent of any net proceeds, or two years from now will get 25 percent.

The reason that I bring this quick-flip provision up is that everything in this Coopers and Lybrand Report seems to point to the fact that this indeed is an on-going business in Saudi Arabia.

We did not go through the liquidation and - if I can find my notes - I've got a series of concerns that we seemed to have expressed, not for the taxpayers of Manitoba in achieving a settlement in Saudi Arabia, but concerns for the sheik.

Page 9 - the middle of page 9, they are talking about a third-party liquidator, and it says this process limits the control of the day-to-day activities of the business from the owners and places it in the public eye. Well, what are we afraid of? Subject to the monitoring scrutiny of the Saudi Arabian government, what are we afraid of? And here's the thing that makes me suspicious. It says Tariq Al Bassam has indicated that the owners

of ABI consider this an undesirable option because of government scrutiny and public eye.

Well, the public eye may well fit the quick flip scenario, that they want this business to be not tarnished in Saudi Arabia so that they can then sell it.

Page 11 . . .

HON. G. DOER: You missed the costs of liquidation . . .

MR. D. ORCHARD: The Minister says I missed the cost, but you haven't had a professional appraiser in to determine those costs.

HON. G. DOER: No. We had the best appraiser in Saudi Arabia.

MR. D. ORCHARD: Well, Mr. Chairman, in the Minister's opinion - without knowledge.

HON. G. DOER: No, in Mr. Curtis' opinion.

MR. CHAIRMAN: Gentlemen, we're not getting anywhere. We're getting into a debate.

MR. D. ORCHARD: This is very, very skimpy information on which to base this decision for sale. It's incomplete, for sure. You can go through this book and you'll find contradictions in Coopers and Lybrand's own report. Page 4, and I'll just read this out to the Minister: "The financial and management information available on the businesses in Saudi Arabia is outdated and of doubtful accuracy." It follows, "As interim managers, we recommended that the option of waiting for an audited financial statement, given the length of time and expense involved and the urgency noted in the foregoing, was inappropriate. A detailed review and analysis of the key assets and liabilities of the business was conducted by Mr. Curtis with support from Coopers and Lybrand's affiliate office in Saudi Arabia. Although not an audit, this review provided a reliable basis upon which to perform a financial analysis of the business. Where it has been necessary to make certain assumptions, these are identified."

We started out with saying, "financial and management information is outdated and of doubtful accuracy" and from that we conclude that we've got a "reliable basis" for a recommendation. To me, Mr. Minister, that's contradictory. You should be concerned about that paragraph alone, let alone other ones.

Now, you see, we got page 11. We go on where I say that this concern is for the sheik. Again we say "removing sale to the Saudi partners. This is an option which leaves the burden of risk with ABI. It has the effect of removing the business activities from public scrutiny." Again, to protect the sheik.

We have signed an agreement whereby we can't take legal action against the sheik despite the RCMP report which is going to come down a month from now. We have got an agreement where we're still supplying MTX staff. If the sheik refuses to pay them, what is the telephone system's obligation? Are we going to leave them over there penniless, or will MTS, as their farmed-out employer, pay those costs?

We have MTS to provide technical support in ongoing contracts. This, it appears, is an ongoing business. If

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it is such, why wasn't - and this question maybe Mr. Curtis could answer - a provision for a quick flip put in?

Now, I know that Coopers and Lybrand said the business has no value. If that's the case, and it'll never be sold or never realize the Al Bassams any profit, why would you not have asked them for, and maybe you did, a provision that if the business is sold at some future date that we share in the profits? Was that even asked for, Mr. Curtis?

HON. G. DOER: I want to respond to a number of points being raised by the Member for Pembina.

He's picking and choosing paragraphs out of a report. The conclusion of both those reports, and he's also stating that you get, you know, that we didn't have appraisers. Mr. Curtis said we had the best people available to appraise those assets in Saudi Arabia.

Secondly, he mentioned the buyer for the sale. I think we did discuss that with Coopers and Lybrand. They did pursue that, I believe. In fact, they pursued it with a couple of companies. If you would have asked the question whether we did pursue buyers, we could have mentioned that there were a couple of attempts to do that as I recall it. But notwithstanding that, the conclusion of both those reports, Mr. Chairman, is that, in the conclusion of the initial Coopers and Lybrand Report, this option will provide the most likely optimum financial return to MTS and result in expedient withdrawal from its investments in SADL and Datacom.

When the Member for Pembina goes further and asks a question on terms of the disposition of MTX's investment in Saudi Arabia, the report again concludes it's not me speaking, it's not some "government source," it's an independent body of Coopers and Lybrand that the Member for Pembina has said is a very thorough organization and I happen to concur.

The May 2, 1987 agreement provides the optimum return to MTX and has the additional effect of placing the burden of risk of future losses on MTX Saudi partner. The partner also incurred financial losses as a result of their participation in this venture during the past five years. When he mentions we only took a snapshot review, the Coopers and Lybrand report . . .

MR. D. ORCHARD: Those weren't my words, those are Mr. Curtis' words.

MR. CHAIRMAN: Mr. Orchard, please.

HON. G. DOER: . . . mentions that it would require a great deal of money. They did have the costs required to perform an audit after they mentioned they had access to public audit, the costs required to perform an audit of the five years of operations, and a time delay necessary to conduct such an audit would have significant impact on the net return to MTX on its withdrawal from the business.

So we have evidence all the way through, in terms of the conclusions, by an independent auditing source with professional private sector people, and the most competent financial expert in the government from the public sector recommending these agreements.

Now, yes, obviously if we could sit down and write the agreement the way we would want it on a unilateral

basis, it would have better provisions on any set of negotiations. But it was negotiated by Coopers and Lybrand and Mr. Curtis with the Saudis; we didn't get everything we wanted in the negotiations. One then has to make the decision about whether that's the best alternative, albeit there's no such thing as a perfect alternative. The perfect alternative was never to get into Saudi Arabia. Notwithstanding that fact, the Coopers and Lybrand Report, public report, tabled in this committee, states it's the most optimum course of action for the public of Manitoba and for the Telephone System.

I wasn't in Saudi Arabia, you weren't in Saudi Arabia, Mr. Curtis and Coopers and Lybrand were, and those were their professional judgments and that's the advice we took.

MR. D. ORCHARD: Mr. Curtis, I wanted to ask the question about the flip provision.

MR. C. CURTIS: Mr. Orchard's asked a number of questions.

MR. D. ORCHARD: Mr. Chairman, just specifically, could I ask was there an attempt to put in a future sale clause in the agreement with the Saudis that if they sold Datacom which they are purchasing from us, that if they sold it at some time in the future at a profit, we would recover on behalf of Manitobans part of that profit? Was that requested to be part of the sales agreement?

MR. C. CURTIS: Not in that fashion, no. There was one area where I attempted to negotiate part of a sale of fixed assets as part of a negotiating stance, but that was subsequently not part of the agreement.

MR. D. ORCHARD: Mr. Chairman, I simply make the case that would have been very easy to include if Coopers and Lybrand's analysis is correct, that it's a valueless company.

The Saudis in my estimation would have had absolutely no grounds for objection that we, to defend the Manitoba taxpayers, include a provision that, if they sell at a profit, we share in the profit. I simply can't understand why that wouldn't have been included. Businesses are sold every - well, why wouldn't that have been included?

MR. C. CURTIS: Well, I think my personal view, I guess, is that any margin of profit is going to be a very small one with the disposition of this operation. I don't think it's a valuable provision, given the status of the country and the status of the business and the fact that we're not going to have anyone there to check it anyway.

MR. D. ORCHARD: Mr. Chairman, if it was of so little value and whatnot, it surely wouldn't have been objectionable to be included in the agreement by the Saudis.

Mr. Doer has attempted to justify the government's decision but, you know, he was informed all along. He's had this report presumably for some time and discussions for some time with Coopers and Lybrand. The point that I make, quite simply to him, is that he

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accepted a recommendation that, upon any kind of questioning, he will find that information was very, very scant on which to make this decision. Financial and management information available on the businesses in Saudi Arabia is out-dated and of doubtful accuracy. That's Coopers and Lybrand saying that.

HON. G. DOER: And the costs required to perform an audit for five years of operation and the necessary time to conduct such an audit would have significant impact on the net return to MTX. I mean, you know . . .

MR. D. ORCHARD: Mr. Chairman, the Minister attempted to justify that earlier on and it doesn't sell. It's like - what's the saying? Old dog food or something doesn't sell.

You made a decision to get out without the RCMP report, without an analysis of accounts receivable. We still haven't got that today.

HON. G. DOER: Well, you had breakdown, and you want a further breakdown.

MR. D. ORCHARD: All we have is a breakdown of what is owed to MTS, not what is owed in a company we have just sold.

HON. G. DOER: You asked for it today, and we'll get it for you.

MR. D. ORCHARD: But you see, Mr. Minister, as a hands-on Minister, did you not ask those kinds of questions yourself? I mean, I'm not responsible for the Telephone System. I'm not a Minister of this government who stood up just a week ago Monday and talked about all the decisions are Cabinet-oriented, the Ministers making decisions. And yet, you're sitting here today, saying well that was the best advice, and I don't think you asked questions to determine whether the advice was best advice.

That's the same scenario that happened with Mr. Mackling, with Mr. Plohman, with Mr. Evans, with Mr. Uskiw, and that's how come we are down \$27 million. You accepted this report as being the best possible scenario without an RCMP report, without an analysis of accounts receivable, without business statements being available, because you accepted the analysis of Coopers and Lybrand that it would be costly and time-consuming to create them.

You didn't come out of Saudi Arabia with very much money. I believe that by making the decision on incomplete information, you may have left a lot of money on the table. The point that I make with you is the quick flip. Everything points, with these contracts, these proposals that we even accepted as late as February 1987, that this is an ongoing business, and we've sold it for a song with no protection against a quick flip for the taxpayers of Manitoba.

I suggest, Mr. Minister, that you did not ask the questions that should have been asked by a Minister responsible. That is the same scenario we had, as I've pointed out for the last five years, in this New Democratic Party Government, and we were promised that this was going to change. We were promised that there was going to be new accountability. We've just

got a bill tabled with us here yesterday that has Crown accountability in it.

But yet here we have a Minister responsible for implementing that Crown accountability who can't even tell us whether he asked a question about the accounts receivable for the company we sold in Saudi Arabia and whether those accounts receivable might be collectible to the tune of \$1 million.

HON. G. DOER: On a point of order, Mr. Chairman.

MR. CHAIRMAN: No, just a second.
Mr. Minister.

HON. G. DOER: Yes, I will respond.

I reviewed all the major options with Coopers and Lybrand and with Mr. Curtis. Mr. Curtis did go on-site to Saudi Arabia. You're absolutely right, I didn't go there and spend two months in Saudi Arabia. We sent the best professional people we could send to Saudi Arabia to represent the Manitoba Government.

You can sit here and create all kinds of conditions that you can pen in an office that may be better to be in an agreement. We did ask whether we could recover money from this operation. Could we sue to get money and win? Could we liquidate and get money back? Could we have any way, shape or form of recovering some \$20 million that was projected to be lost by Arthur Andersen?

The answer to all of those questions, not only for Coopers and Lybrand, who hired legal advice in Saudi Arabia that had expertise in the Saudi courts, was that we could. The advice we received from Mr. Curtis, in terms of the assets and the values of all of the equipment and all of the accounts, was that it wasn't a potential positive return from the government.

Now I know the Member for Pembina would like us to sit here in protracted negotiations for the next three or four years with staff over there, with unlimited litigation going on, and situations that would continue it because it could keep it well before the public eye.

We made a decision for an orderly wind-down of MTX, and included in that decision was the wind-down of the Saudi Arabian operation. We projected that it would cost some \$20 million to do. The Member for Pembina said our figures were outrageous, that it was going to cost \$30 million or \$32 million. He may be very disappointed that we're coming in slightly under 27. That's nothing to be proud about. It's too much money to lose to begin with.

We had, as I say, very competent people to make these decisions. You don't write up a contract unilaterally; you know that. We had the Deputy Finance Minister who has a strong accounting background - more so than anybody around this table, I might add, Mr. Chairman - who was able to analyze all the financial aspects of the operations. We had legal advice, we had private sector advice that had some offices in Saudi Arabia, and we had the Deputy Finance Minister, who recommended this to us.

With the greatest of respect to the Member for Pembina, I think that kind of expertise was the type we needed to make the right decisions, and he can second-guess those individuals all he wants. The questions were asked in terms of all the potential returns

to the province. The questions have been provided and we feel that it was the best way out of a bad deal.

MR. D. ORCHARD: I appreciate the Minister having to defend that right now because he made the decision to proceed in that manner and he has to attempt to put the best public face on it possible.

HON. G. DOER: You have to put the worst one on it.

MR. D. ORCHARD: But, Mr. Chairman, you know, for instance, we talk about independent outside people making the analysis. And I just refer the Minister to page 2. We have discussion here indicating - Mr. Curtis, supported by the Coopers and Lybrand affiliate office in Alkhubar and Saudi legal counsel - "The basic framework and a number of details for an agreement were developed and agreed to in principle." Now, this was Mr. Curtis, but assisted primarily by the Coopers and Lybrand affiliate office in Alkhubar, developed the framework for this withdrawal in Saudi Arabia.

And then we had the mandate of Coopers and Lybrand "to assess the proposed agreement drafted, currently under consideration, and provide recommendations with respect to the appropriateness of the proposed agreement."

We've got Coopers and Lybrand in Saudi Arabia developing an agreement and Coopers and Lybrand in Manitoba commenting on the appropriateness of that proposed agreement.

HON. G. DOER: The vice-president, Mr. McKenzie, just for the record to show, was the senior officer from Coopers and Lybrand who did provide the overall supervision of the activity of this wind-down - a person who has a fair degree of credibility, even the Member for Pembina would admit in these areas.

MR. D. ORCHARD: Mr. Chairman, I simply make the point to the Minister that Coopers and Lybrand developed the framework for withdrawal and then commented on the appropriateness of it to the Minister.

HON. G. DOER: Yes, and that's why we have the Deputy Finance Minister with us.

MR. D. ORCHARD: We have two sources . . .

MR. CHAIRMAN: Gentlemen, one at a time, please. You'll have a chance to respond, Mr. Minister.

MR. D. ORCHARD: Mr. Chairman, it appears quite substantial that, in this wind-down, we have the sheik exposed possibly to \$3.5 million, Manitobans exposed to \$20-some million. We've got contracts that were approved in February, 1987. Throughout the report, we seem to have the sheik's interest in Saudi Arabia, and the public scrutiny and the public information of the company that he's part-owner of in Saudi Arabia to be taking precedent over the interests of the Manitoba taxpayer.

The report consistently says that accurate and adequate information financially and management-wise was not available. Coopers and Lybrand say that themselves. This Minister does not have the RCMP

report. There's no analysis that apparently he has available to himself on the accounts receivable of the company we sold.

HON. G. DOER: I said we could provide them.

MR. D. ORCHARD: But, Mr. Chairman, it's a little bit too late to provide those now, as the Minister has interjected and said will be provided. Because, Mr. Chairman, this Minister has agreed to a sale without knowing what the value of the accounts receivable presumably are in Saudi Arabia for the company we sold.

HON. G. DOER: I was advised by Coopers and Lybrand and Mr. Curtis what the value of those accounts receivable were.

MR. D. ORCHARD: And would you give us that figure right now then, Mr. Minister?

HON. G. DOER: They told me the corporation, in terms of recovering money, the value of those assets that could be collected in the accounts receivable was much less than the settlement that was achieved and is before you today.

MR. D. ORCHARD: But, Mr. Chairman, I take it then from the Minister's answer that he saw the aged accounts receivable, etc., etc.

HON. G. DOER: No, I didn't.

MR. D. ORCHARD: He just said, no, he didn't.

So, Mr. Chairman, again we have a Minister not asking questions. The information then, the basis for which his decision is made is not complete information.

HON. G. DOER: I think that the thoroughness that Coopers and Lybrand provided in November that the Member for Pembina articulated on a number of occasions, the thoroughness of that corporation, the competence of that corporation, the professionalism of that corporation, in combination of an individual assigned by the government, the Deputy Finance Minister, who got the former government out of a real mess in the Hydro corporation, who has, I think, got us out of a mess in Saudi Arabia, whose credibility I think goes much beyond the slings and arrows of a committee meeting, is the type of people I respect in terms of their accounting abilities, their business abilities, the legal advice we had. Both conclusions, both the question today and the question of the Coopers and Lybrand Report that was tabled in this Chamber on May 21, basically state all the protestations of the Member for Pembina to the contrary, that this is the optimum return for MTS, therefore the people of Manitoba, that is possible and therefore it's recommended.

This was scrutinized, as I say, by the MTX board, but it was also scrutinized by Mr. Curtis in terms of the situation. I have no control over the RCMP investigation. If it takes another two years, there's no way we want to continue on with potential hemorrhaging and losses in that Saudi Arabian corporation.

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We wanted to assess the value of the assets, assess the potential financial viability of anything else left in that organization, and make quick decisions based on that information and the best information we could obtain, and move for the wind-down. We didn't want to sit around for two or three years trying to cross every "t" and dot every "i" if there was no value left in dotting that "i."

So Mr. Chairman, I took the advice of Coopers and Lybrand; I took the advice of Mr. Curtis. There is no such thing as a perfect agreement. It was subject to negotiations. We felt that was better than a liquidation, it's articulated there. Mr. Curtis was in Saudi Arabia for two-and-a-half weeks and, quite frankly, I respect his judgment of what that operation was worth to Manitoba and what it would cost us to stay in any longer.

If you don't respect that, that's your decision. I do.

MR. D. ORCHARD: Mr. Chairman, just one question before we adjourn, would the Minister accept one question on . . .

HON. G. DOER: I'm half an hour late but, if you give it to me, I'll take it as notice.

MR. D. ORCHARD: You indicated in the House yesterday that the terms of reference for the wind-down in Saudi Arabia were part of this report. So can you provide those terms of reference . . .

HON. G. DOER: Some of the conditions and options were in the report, yes, and they were further delineated in the paper dropped today.

MR. CHAIRMAN: Committee rise.

MR. D. ORCHARD: Mr. Doer, Garry, are you saying to me that you didn't have written instructions for the withdrawal in Saudi Arabia to Coopers and Lybrand?

COMMITTEE ROSE AT: 12:30 p.m.