



First Session — Thirty-Fourth Legislature
of the
Legislative Assembly of Manitoba

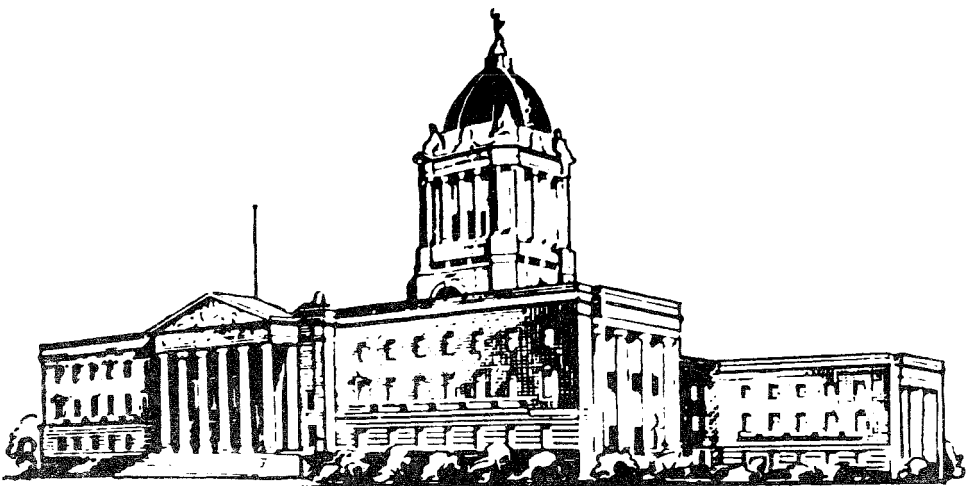
STANDING COMMITTEE

on

ECONOMIC DEVELOPMENT

37 Elizabeth II

Chairman
Mr. H. Pankratz
Constituency of La Verendrye



VOL. XXXVII No. 2 - 10 a.m., TUESDAY, DECEMBER 6, 1988.

**MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Fourth Legislature**

Members, Constituencies and Political Affiliation

NAME	CONSTITUENCY	PARTY
ALCOCK, Reg	Osborne	LIBERAL
ANGUS, John	St. Norbert	LIBERAL
ASHTON, Steve	Thompson	NDP
BURRELL, Parker	Swan River	PC
CARR, James	Fort Rouge	LIBERAL
CARSTAIRS, Sharon	River Heights	LIBERAL
CHARLES, Gwen	Selkirk	LIBERAL
CHEEMA, Gulzar	Kildonan	LIBERAL
CHORNOPYSKI, William	Burrows	LIBERAL
CONNERY, Edward Hon.	Portage la Prairie	PC
COWAN, Jay	Churchill	NDP
CUMMINGS, Glen, Hon.	Ste. Rose du Lac	PC
DERKACH, Leonard, Hon.	Roblin-Russell	PC
DOER, Gary	Concordia	NDP
DOWNEY, James Hon.	Arthur	PC
DRIEDGER, Albert, Hon.	Emerson	PC
DRIEDGER, Herold, L.	Niakwa	LIBERAL
DUCHARME, Gerald, Hon.	Riel	PC
EDWARDS, Paul	St. James	LIBERAL
ENNS, Harry	Lakeside	PC
ERNST, Jim, Hon.	Charleswood	PC
EVANS, Laurie	Fort Garry	LIBERAL
EVANS, Leonard	Brandon East	NDP
FILMON, Gary, Hon.	Tuxedo	PC
FINDLAY, Glen Hon.	Virden	PC
GAUDRY, Neil	St. Boniface	LIBERAL
GILLESHAMMER, Harold	Minnedosa	PC
GRAY, Avis	Ellice	LIBERAL
HAMMOND, Gerrie	Kirkfield Park	PC
HARAPIAK, Harry	The Pas	NDP
HARPER, Elijah	Rupertsland	NDP
HELWER, Edward R.	Gimli	PC
HEMPHILL, Maureen	Logan	NDP
KOZAK, Richard, J.	Transcona	LIBERAL
LAMOUREUX, Kevin, M.	Inkster	LIBERAL
MALOWAY, Jim	Elmwood	NDP
MANDRAKE, Ed	Assiniboia	LIBERAL
MANNES, Clayton, Hon.	Morris	PC
McCRAE, James Hon.	Brandon West	PC
MINENKO, Mark	Seven Oaks	LIBERAL
MITCHELSON, Bonnie, Hon.	River East	PC
NEUFELD, Harold, Hon.	Rossmere	PC
OLESON, Charlotte Hon.	Gladstone	PC
ORCHARD, Donald Hon.	Pembina	PC
PANKRATZ, Helmut	La Verendrye	PC
PATTERSON, Allan	Radisson	LIBERAL
PENNER, Jack, Hon.	Rhineland	PC
PLOHMAN, John	Dauphin	NDP
PRAZNIK, Darren	Lac du Bonnet	PC
ROCAN, Denis, Hon.	Turtle Mountain	PC
ROCH, Gilles	Springfield	LIBERAL
ROSE, Bob	St. Vital	LIBERAL
STORIE, Jerry	Flin Flon	NDP
TAYLOR, Harold	Wolseley	LIBERAL
URUSKI, Bill	Interlake	NDP
WASYLYCIA-LEIS, Judy	St. Johns	NDP
YEO, Iva	Sturgeon Creek	LIBERAL

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Tuesday, December 6, 1988

TIME — 10 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. Helmut Pankratz (La Verendrye)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messr. Downey

Messrs. Alcock, Angus, Evans (Brandon East),
Evans (Fort Garry), Gaudry, Gilleshammer,
Harper, Helwer and Pankratz

APPEARING: Mr. Dale Smeltz, Chairman, A.E.
McKenzie Seeds Co. Ltd.

Mr. Ray West, General Manager

Mr. Ken Robinson, Vice-President, Finance

MATTERS UNDER DISCUSSION:

Annual Report from A.E. McKenzie Seeds Ltd.

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Mr. Chairman, Helmut Pankratz: The Committee of Economic Development, please come to order. Today we are here to consider the report on A.E. McKenzie Co. Ltd.

First of all, I would like to ask the Minister in charge for his opening statement.

Hon. James Downey (Minister responsible for The Communities Economic Development Fund Act):

First of all, let me say to the committee members and to the public of Manitoba, in appreciation for the work that is being done at McKenzie Seeds by the management of McKenzie Seeds and all their staff and, as well, comment to say that we are pleased with the past activities and the work done by the former board of directors of McKenzie Seeds and say to the new board of directors we wish them well in their endeavours to direct the company which is very important to the City of Brandon and western Manitoba to a profitable future.

* (1005)

Let me introduce the staff who are with me today. I have the chairman of the board, Mr. Dale Smeltz, who is directly at my left; Mr. Ray West, who is the general manager, recently appointed, long-time member of McKenzie Seeds; and Mr. Ken Robinson, who is the vice-president of finance. I have as well Ed Hudek with me today who is doing some work with me on Crown corporations.

The A.E. McKenzie Co., as most of you are aware, all shares of which are owned by the Province of

Manitoba, operates as a private company under The Companies Act of Manitoba and it is governed by a board of directors.

As I have indicated, the board of directors is appointed by the Lieutenant-Governor-in-Council and we have the new chairman with us today. The chairman, as I indicated, is Mr. Smeltz; general manager, Ray West; and Mr. Ken Robinson. The wholly owned subsidiaries of A.E. McKenzie are Steele Briggs Ltd., McFayden Seeds Ltd., Pike and Company Ltd., Canada Seeds Limited.

The year end of the company which we are now looking at is October 31 for 1987. We will go through the report of 1987, but the board chairman and the manager are prepared to give some indication as to what the current update is as we have also completed another year as of October 31 of 1988. There would be an unaudited comment made, but I think it is important for the committee to know what the current situation is. So any reference to the new report, it is not a matter of passing it, but just a matter of dealing with it as an unaudited account and for the information of the public and the committee Members who are here.

In 1987, the company had a profit of \$188,301 which is a drop from the 1986 profit of \$303,539 or a profit reduction of \$115,238.00. That is correct if the people who subtracted are correct. I take that as proper arithmetic procedures.

In 1987, the company had an overall decline in sales of \$230,000 and an increase of operating expenses of \$216,000.00.

The sale of packet seeds for McKenzie represents about 47 percent of its total sales volumes. Packet seeds, unfortunately, is a declining market here in Canada as it is in North America and as well throughout the rest of the world. The packet seed market is shrinking worldwide by 7 to 8 percentage points each year. We expect that this trend will continue throughout 1988 and 1989. In fact, we see no real reason in sight why this trend will continue for an extended period of time into the future.

* (1010)

The reasons for this change in the sale of packet seeds are many and varied. Some of these are: increased use of bedding plants, an annual increase of 10 percent per year in bedding plant sales, third generation gardeners, reductions in garden size and gardening activities in the passing of each generation, more women in the work force, some of the decline in rural Manitoba, the small towns and villages, which have traditionally been more conducive to gardening activities, migratory trends of Canadians to urban centres and to multidwellings and more apartment-type

dwelling which again reduces the number of home gardening activities that take place.

Obviously, if McKenzie's largest market is shrinking, the company must find other ways to achieve sales growths. To this end, the company has developed increased sales volumes during 1987 in several other areas, such as spring bulbs, roses and perennials, as well as its mail order business. This growth will continue into the future and our key items now are being addressed in the company's strategic plan.

Each and every year the company is faced with additional operating expenses, a lot of which are beyond its control. For example, increases in the cost of postage, telephone, taxes, gasoline, printing costs and travel costs are additional costs that the company must absorb.

These increased annual operating costs have put an extra burden on the company's profit position. In recent years, the company has put its house in order. Basically McKenzie today is a good company with good people who have proven that they are well-motivated and highly productive, and let me say, Mr. Chairman, as well, that having visited the plant—and I know most of the Members here have and are familiar with it—I think it is a plant as far as keeping it in up-to-date condition, cleanliness and quality product they could be extremely proud of. I compliment them for that extra effort that goes into it. I know the people there have worked hard to do so.

In actual fact, if it had not been for the ability of McKenzie employees to strive for the delivery of huge productivity gains over the last few years, the company today would not have been profitable.

Let me just add, as well, we take profitability into the context that there is a large shareholder amount of money that is in the company that there is no interest paid on but, setting that aside, that is how we are reporting.

The company, however, although it has achieved a lot in recent years, has not yet been able to put a decent profit on the bottom line. This profit, however, has been addressed this year through the development of a company's strategic plan. This plan has already commenced stages of its implementation and, although it will not significantly affect the company's profit position for 1988, it will start to reflect significant profit improvement in the 1989 fiscal year. I would put a caveat on that, if we have some unforeseeable activity that would influence that beyond the control of McKenzie's, one would have to be very conscious that something beyond their control could happen. But their basic plans are that the improvements should continue to take place.

To sum up, although our 1987 profit level is down from 1986, which of course is not desirable, it is only a short-term situation until the company has time to implement its new strategic directions.

I just again say, Mr. Chairman, I thank the management and the employees, and the board of directors for their interest, for the community's interest and I know it is a major employer of people in Brandon

and its employment we are all striving to try to create these days; it is a matter of job security, and we will endeavour as a Government to enhance those opportunities and job security.

Mr. Chairman, and as I have indicated that is for 1987. We could in fact at some point in committee stage make comment on the unaudited current position. Thank you, Mr. Chairman, I am prepared to answer questions.

Mr. Chairman: With that, we will open it up for questions from the committee.

Mr. Laurie Evans (Fort Garry): Certainly I look forward to this opportunity to go through the McKenzie information here. I would just like to indicate that I had the good fortune of visiting the plant twice since April when we were elected, and I certainly want to thank Mr. West and his staff for having shown us through, and frankly I was very impressed.

* (1015)

A.E. McKenzie Seeds was something that I had heard about and knew of in Brandon, but that was the first opportunity I had to visit the plant and I was very impressed, not only with the operation itself but certainly with the rapport and the enthusiasm that was shown by the staff, particularly when we went from one department to the next. Mr. West at each one of them seemed to be very enthusiastic about what they were doing and certainly I was impressed with the attitude that seemed to prevail and certainly they were looking forward to what, I think Mr. West indicated, was a bright future in terms of diversification and moving into a lot of areas that one does not normally expect to see in a seed company in terms of the diversification that ranged all the way from canners for home canning through various other pieces of equipment, and I think all the way to the extracts that are used for making your own alcoholic beverages, if I am not mistaken. So there was quite a range of commodities, and so the diversification to the marketing strategy, and the diversification was probably greater than one would anticipate looking at the title of the company.

But there are a few questions that I would like to raise, Mr. Chairperson, first of all, is a little bit of the historical background. Is there any involvement or any responsibility of A.E. McKenzie to the University of Brandon anymore, or is that just a historical component in A.E. McKenzie?

Mr. Downey: Mr. Chairman, I think there is no direct connection in any way to the the university. I think, historically, the only connection is that one of the members of the board is a daughter of Mr. A.E. McKenzie and is a member of the board in perpetuity, and that is the kind of thing, but no direct connection to the University of Brandon.

Mr. Laurie Evans: Mr. Chairman, so in other words when the day comes that McKenzie is turning a significant profit, there will be none of that profit going necessarily to the University of Brandon?

Mr. Downey: That is correct. I would hope that if the Member for Fort Garry carries out the Liberal platform to sell McKenzie Seeds, it would be whoever bought it would get the profits. We would, Mr. Chairman, hope that the longer-term plan would be the board and the management to start to repay some of the shareholder's loan. However, let us not spend that money until it starts to come in and that would be my desire.

Mr. Laurie Evans: It may be a naive question, Mr. Chairperson, but I have a little difficulty with the concept of shares in a wholly-owned Crown corporation. Just what is the implication of the shares and the share numbers? Is the implication that if and when the company were privatized, that there would be a sale of shares per se? I am a little hazy on the implications of shares here.

Mr. Downey: Basically, I would say there are two options, Mr. Chairman, and I say this only to help the Member in his policy; it is not our policy. I would think there would be two options, one would be to sell the shares of the company and the other would be to sell the assets of the company, and the province would retain the shares. But those are the two options I would see that are there.

Mr. Laurie Evans: The other area I would like to check a little bit is in some of the historical background that I have read. There is the employment level which identifies about 184 full-time equivalents. Is that approximately the level of employment that is provided now?

Mr. Downey: I would think that it does reach a peak in the 180s. I think the full time would be somewhere in 165 to 170 would be running at that level.

It would go to the higher number on part-time and additional staff. Mr. West may have an additional comment to make on the staffing if he wishes to. I would ask him to comment.

Mr. Ray West (General Manager): Basically, we have the equivalent of 165 full-time employees, and as the Minister indicated it would peak around 180, but we look at everything totally in perspective. We have the equivalent of 165 full-time employees at McKenzie's.

Mr. Laurie Evans: This full-time equivalent, what number would be there on a permanent basis or your—like being referred to as the skeleton staff?

Mr. West: I am not absolutely sure of that. I think it is about 100.

* (1020)

Mr. Laurie Evans: The comment was made by the Minister that there is a declining demand for packet seed for home gardening and that type of thing. The question is, is there any opportunity for McKenzie Seeds to participate in the supply of seeds or bedding plants or whatever it happens to be, for the commercial horticultural trade or industry in Manitoba? In other

words, does McKenzie get involved in providing the large quantities of seeds that are required by the horticultural or market gardeners and those who are producing crop for commercial production, and so on?

Mr. Downey: Mr. Chairman, as I indicated in my opening comments, that bedding plant market is one which has been an expansionary industry within the country and within the market areas of which McKenzie's serve, and it is an area which they are expanding.

Because it is a private company in competition with other private companies, I would not want to overly expose some of the plans that McKenzie's have dealing with their strategic plan, but they are very well aware of the shrinking market. They are making the adjustments to try and look at an alternative market product which they will go into the marketplace with. Some of their plans which I have had a chance to discuss with both the board chairman and the management, I feel, they are very excited about, as I know the manager does, that there are good opportunities out there.

We have to remember that McKenzie's have a tremendous outlet of retail positions with some of the major chains, with some of the major retailers in Canada. There is virtually an untapped market very close to us to the south side of the border, where there could be a tremendous opportunity for market growth. I see market growth coming in two areas, one expanding your product line to put at the marketplace for a longer period of year rather than just the garden seeds, a complementary type product, and whether it be what the Honourable Member for Fort Garry (Mr. Laurie Evans) has indicated, and/or additional product line, but also the numbers of people which you expose your products to and new market areas.

So again, I do not want to elaborate or I do not think it is fair to elaborate because of the competitiveness of the industry, but I do see some tremendous opportunities. I can assure you, the enthusiasm of Ray West and the board and the management is there, and I am extremely pleased with their plans that they are developing.

Mr. Laurie Evans: I certainly want to assure the Minister that I do not want to be portrayed as being negative because I certainly see lots of opportunity for McKenzie Seeds. I was, as I indicated, very impressed with the diversification plan that was laid out. Of necessity, if it was fairly brief and I think tried to make—the confidentiality certainly had to be retained.

One area that I am specifically questioning, Mr. Chairperson, and that is with the large horticultural producers in the province. It is my understanding that a lot of that material, such as transplants and the seedlings for onion transplants, that type of thing, are coming in directly and are being imported by the individual producer without any involvement of Canadian companies. My question is, is there an opportunity for McKenzie Seeds to participate in this very large market in Manitoba?

Mr. Downey: Yes, not only in Manitoba, Mr. Chairman, but I would say throughout all of Canada that there is

a tremendous—and I know that Ray is very much up to date on that, it is part of the discussions that we have had. He may want to elaborate further.

I just want to add one thing, and again I think it is extremely important. Because of some of the history of McKenzie's and the criticisms and, I would say, the concerns by the public and the lack of knowledge of what is really going on at McKenzie's, at certain times, and unfortunately a lot of bad publicity, I think that history should be put behind us. I am pleased to see that it is put behind us and the direction it is now given.

A good example of that is the open house which McKenzie's had this fall, where they invited the community to come to tour McKenzie's, to talk, to see the attitude that is there, to see the work that is done. It was a tremendous exercise. I know the employees went beyond and above the call of duty to do so, but it was very helpful to a lot of the armchair quarterback critics who were sitting out in the community with a lot of comments that really did not have a lot of fact to them.

That was an exercise which was extremely helpful and, again, it is a corporate family that is in the Brandon community, and I say let us leave the political rhetoric behind and get on with some of the positive opportunities.

* (1025)

Your comments—maybe Ray has a further comment to make as far as bedding plants or commercial horticultural activity is concerned, again remembering the private competitiveness and the plans that have to be considered.

Ray, if you have a comment to make, feel free to do so.

Mr. West: Mr. Chairman, in the company's strategic plan we are now looking at some testing and perhaps some launch opportunities into a type of bedding plant sale for the home gardener.

We are not addressing the commercial gardeners as such, either the greenhouse growers or the commercial trucking trade or market gardeners. We feel that we have a strategic plan that is a good strategic plan and will take the company in the direction that will give us lots of increased sales opportunities, profit opportunities and some job opportunities.

I have put down, without getting into all the specifics of the company's strategic plan, I have put down four general areas that I could elaborate on if you wish, and I will just read these for you.

The first one is increased activity in our Consumer Products Division as it relates to packet seed market share through aggressive new marketing techniques as well as addressing niche market opportunities. Basically what that means is, we think that there is some opportunity for growth in our main market, which is our packet seed market, particularly as it relates to specialty seeds, to niche opportunities and to regional brand opportunities that we can sell in competition with the people who we are competing with in the various regions.

The second thing would be increased activity in our Direct Marketing Mail Order Division through an aggressive expansion program in both existing markets as well as some new markets. We feel we have a lot of opportunity for growth in our Direct Marketing Mail Order Division, and we have targeted some growth opportunity in existing markets which we are now going after, and the company has committed an extra quarter-of-a-million dollars to expansion programs in that area for the spring of 1989, and it is working quite well for us.

The other thing is, there are some opportunities in other markets that McKenzie, or McFayden now does not address, and we think that, without identifying those markets, we would like to look at those as well.

The third one would be withdrawal from a few product areas where profits were not being earned and where we could not see much improvement for the future. Significant amounts of company assets were tied up in areas on which the company earned no profits. This money will now be freed up for investment into other areas of the company to create sales and profit growth as well as new job opportunities.

Basically we had some areas of the company where we had as much as \$200,000 or \$300,000 worth of our assets tied up where we were not earning a dime profit and there was no—in the future, that did not look like that was going to change much. So we have freed up some of that and we are going to free up a little bit more, and we will take that money and reinvest it into areas where we feel we have some good opportunities for growth.

The fourth one would be, the company will continue to concentrate on improving productivity in all areas of the company, especially as it relates to accounts and sales for its rationalization, as well as planned and office processing activities. Basically, if you had seen McKenzie's three or four years ago, you would not have seen the esprit de corps, the morale factor, the productivity levels that you see there today. Now although it has improved significantly from where it had been, there are still opportunities for additional achievements on productivity improvements which really fall right to the bottom line.

Mr. Laurie Evans: Just a few more technical questions, does all of the seed that McKenzie's handle, is it all imported from the United States, or even from further south?

Mr. West: Mr. Chairman, the majority of our seeds come from the Pacific Northwestern United States in the regions of Idaho, Oregon, Washington and California. We do import seeds from Europe and some from the Orient, Japan, but there is very, very little seed production actually in process here in Canada.

So there really is not much opportunity for us to have seed production right in this area, and there are many reasons for that, one of which is the economies of scale that they have in the United States and also the favourable climatic conditions where a lot of their biennial seed producers can be grown seed to seed

rather than producing a stetting, for example, with the carrot and then lifting that out of the ground and then replanting it again the following year, so it could go to seed.

So the cost factor in Canada is significantly higher for the production of that seed than it would be in the United States.

* (1030)

Mr. Laurie Evans: Can you give us any idea of what proportion of your seed cost would be royalties that are due to plant breeders' rights or other patents? As I think you are aware, we do not have plant breeders' rights or plant patenting in Canada. I am just interested if you have a sort of a guesstimate of what percentage of the cost of your seed would be royalties as opposed to paying for the cost of the production per se?

Mr. West: Mr. Chairman, this would only be a guess, but it would not be a very significant amount. We do not deal a lot with proprietary brands of seeds, either in garden seeds or our grasses or things of that nature. We deal a lot with common varieties, although I believe they do have plant breeders' rights in Europe and in the United States. It is not a significant factor as it relates to our seed costs.

Mr. Laurie Evans: As Mr. West mentioned in the earlier answer about little opportunity as he saw it for the production of seed locally, is he adamant about that, or can you visualize any opportunities for the agricultural factor to get involved? I was thinking in terms of some of the crops, parsnips, for example, I think it would be very easy to produce tonnes of seed in Canada if one wanted to.

It may be a little more difficult with some things such as the biennials, carrots and beets and so on, but we certainly know that there are techniques of producing beet seeds and carrot seeds in Canada—and I assume they are chuckling at Mr. Connery at the end here—but they are chuckling and he is probably going to say as a scientist I am naive, but I am not convinced that there are not opportunities for the production of some of these seeds in Canada, particularly if we had plant breeders' rights, and I am wondering whether there is any comment from the Minister or from Mr. West on this.

Mr. Downey: Mr. Chairman, I guess the Honourable Member has raised an area which, if there were an opportunity, then it would have to be the farmers who would carry out the activity of producing it. I really do not know whether there has been any research money or any effort by McKenzie Seeds put in that area. It may be an area which could be further explored or discussed, taking into consideration the professionals who were sitting around the table from the vegetable industry. You know, seriously, there may be some area, but I do not think McKenzie's have had any money or have done any discussions in that regard. Maybe it is an area for further opportunity, but I will let Mr. West comment if he has anything further to add.

Mr. West: Mr. Chairman, in the past years, over the last three or four decades, there has been seed

produced for McKenzie in Canada. It has become increasingly smaller in the amounts that have been done in this way, and generally just because there is really not a lot of seed-growing activity in Canada.

There used to be—for example, we would grow some peas in the Portage area. But now they grow, to the best of my knowledge, only field peas for split peas in soups and things of that nature. There used to be some peas grown around Brooks, Alberta, and some flower seeds in Vancouver, and some vegetable seeds in the Kootenays.

Those things have all dried up in recent years. To the best of my knowledge—like, at one time when my father was buying seed from McKenzie's many, many years ago we tried to get as much garden seed as we could from Canada, because we wanted to support the Canadian production. In actual fact it has not been McKenzie, it has been the production that has sort of dried up, and there is really very, very little seed now actually being produced.

Now we could become very proactive and go out and start to talk to some farm groups and some people of this nature, to see if they would be interested in resurrecting this. I would think that McKenzie would be better off to use the world supply that is existing and to buy our seed from our sources that we are now buying it from, and to carry on with our strategic plan which I think will really impact our bottom line.

I do not think the producing of garden seeds here in Canada is going to have any significant impact on our bottom line. It might help a little bit the economy of the farm here, the farm community, but that is not that much significant. I think that McKenzie now if it concentrates on its strategic direction over the next four or five years, can put some real money on the bottom line for the company, and will be a very good asset for the people of Manitoba and for the shareholder.

Mr. John Angus (St. Norbert): Mr. Chairman, just a couple of questions if I may, I wonder if we might be able to get a copy of the unaudited balance sheet and financial statement for comparison sakes. As you have just indicated, it is unaudited and we do not need it. If those actual figures are not available, then perhaps we can have some indication that at least the most recent financial statement indicates a positive turnaround which will indicate that the policies that they have adopted in terms of marketing strategies and efforts within the organization are working.

Mr. Downey: Mr. Chairman, I do not have a copy of the unaudited statement but I can give the numbers to the Member. It is in excess of 250,000 for the year ending 1988, again remembering that it is unaudited and that is a—pardon the pun—very conservative figure which I have given.

Mr. Angus: That is a net—

Mr. Downey: That is right.

Mr. Angus: Thank you, Mr. Chairperson—

Mr. Downey: Not considering any payment to the shareholder or any interest on the shareholder's money, which I indicated earlier.

Mr. Angus: It is nice to run a company in that way.

Mr. Chairperson, I wonder, just picking up on what Mr. Evans from Fort Garry suggested, if the members of the board or the manager of the company would comment on the effect of a rising dollar, on the suggestion that we continue to buy our base product, if you like, our raw materials from the Americans in this particular case, and/or secondly, the potential impact of free trade, and finally, the combination of both of those. What plans has the board taken to offset that?

Mr. Downey: Mr. Chairman, I can make a general comment and then can add, as I see it, as Minister, that I think if I am correct and I stand to be corrected by the chairman or the manager, that the actual seed cost is a very minimal part of the overall costs. So the decrease in the dollar does not play a big role, strengthening of our dollar against the United States because we buy the seed there, would put us in a better position, but I do not think a tremendous amount, but again management can respond to that.

As I understand it, the Free Trade Agreement dealing specifically in any comments we have, to my knowledge today, and I say this because the majority of our market is in Canada, again so the dollar is not changing that much. Access to the United States market or a major marketing thrust into the U.S. will just probably, if we go to the northern states, would just increase by double our market exposure, which again I think is a very positive thing for the McKenzie Seeds.

As far as tariffs and removal of tariffs and product that are bought or sold back and forth, maybe the general manager may have some comment or the chairman. I do not think it would have a big impact, but I think the whole agreement and the initiative to do more business with the United States, will be a major positive factor for McKenzie Seeds. I would let the chairman or the manager respond further if they have additional comments to make on any of those questions.

Mr. Dale Smeltz (Chairman): Mr. Chairman, I do not believe that the purchase of the actual seeds does have a very big impact on the net cost of production for McKenzie Seeds at all. I do believe that Mr. West may want to comment on this further, that agricultural seed now is not subject to a great many tariffs, either back and forth, north to south, for the seed market. I do not think it would have much of an impact at all on doing business with the United States, either in procuring the seed or on the movement of the packaged seeds back and forth, other than that individual states do have individual, sort of, regulations, and as far as photo-sanitary regulations are concerned, and some of those things that will be dealt with over the next five to seven years, or whatever. I do not think the rising dollar, or the value of the dollar will have much of a negative or positive impact on the business of McKenzie

Seeds, if they do get into that upper midwest market, would basically have much of an impact on it at all. It is in the company's strategic plan, I might say, to investigate that upper midwest market and the board supports that strategic plan.

Mr. Angus: It does make sense to penetrate future markets and move your product into large urban areas in Minneapolis is just a prime candidate I am sure. Please believe me, I am not on any sort of a witch-hunt as to how the board handles itself. I would simply like to satisfy myself that they are at least cognizant of these things and have plans in place to effectively operate the company. Can you give me a dollar figure, and perhaps your finance person, Mr. Robinson, who can indicate what in the cost of sales, what is the breakdown in terms of raw material? I was always aware that the cost of sales was actually raw material that you are buying, and that is \$7 million, and by my simple mathematics and sort of an old country boy type of business experience, at 20 percent change in the dollar, or 5 percent change even, would have a pretty major impact on my company, I would think. So, perhaps I can just get a bit more specific detail on that. Whoever wants to do it, I am not—I singled out Mr. Robinson, I perhaps should not have done that, Mr. Chairperson.

* (1040)

Mr. Ken Robinson (Vice President, Finance): Yes, Mr. Chairman, if you look at our cost of sales over the past number of years, they have ranged in the area of \$7 million. The total cost for our annual consumption of seed, the raw seed going into that \$7 million is approximately \$1 million. So, one-seventh of the total cost would be raw seed.

Mr. Angus: Mr. Chairperson, through you, that million dollars, the majority of it is purchased from the United States? Again, I do not know the industry that well, and are there any other portions of that \$7 million raw cost of sales that are acquired from the United States? I am looking for a dollar figure of stuff we buy from the United States so that if we see a dollar going from 80 cents to 90 cents we say, hey 10 percent of a million dollars, 100,000, that is half the profit you made last year, now what are we going to do about it?

Mr. West: Mr. Chairman, actually the Canadian dollar strengthening helps our purchases from the United States and we really do not purchase that much. The seed, for the most part, is the main ingredient that we would purchase from the United States; the other component parts of the cost of goods sold would be packages and seed displays; labour, the actual building of the product is in our cost of goods sold. Mr. Robinson, I am sure can give you a breakdown as to how that is set up, as to each component part is, but about a million dollars would be the seed. If you like, I will get Mr. Robinson to—

Mr. Robinson: Mr. Chairman, I just wrote down some numbers and obviously there will be some missing numbers. In our cost of sales—and if we use a \$7 million number—about 1.5 million of that is labour and

overhead in the plant. The raw cost of display parts going into the units that house the packet seeds in our retail stores across Canada would be about half-a-million dollars, and the packets that we put the seeds in, approximately half-a-million dollars. Obviously, there is in other parts of our company the Mail Order Division which, for the most part, is the purchase of finished goods which come, some from Europe, some from the U.S., some from Canada, and would make up the majority of the balance of the \$7 million.

Mr. Angus: Mr. Chairperson, I am not going to belabour this. Perhaps, after the meeting is over, I can have a cup of coffee with the finance people and ask them how they figure that if I can buy things at 80 cents on the dollar and the next day I buy them at 85 cents on the dollar that is not cutting into the money that I am spending to buy things. Do you want to comment on that?

Mr. Downey: As has been indicated, the strengthening Canadian dollar puts us in a better position from the products that we are buying out of the United States.

Mr. Angus: Again, I will leave that, Mr. Chairperson, and I will ask for an explanation afterwards.

I do have a question in relation to the portion of company sales that are made on consignment, and with a slumping market, the trends, I guess, in terms of exercising those consignments and recovering the investment that we made in making those sales, how many of them get returned? How many of them do not get sold? How many of them are written off? Have you been tracking that investment that you have been making and what does it indicate?

Mr. Downey: I am sure the company has been tracking it. They have a complete handle on it. I would let the manager comment further on that. I know it has been an area which they are very much on top of and probably would look for improvements there and it may be seeing some.

Mr. West: In the last three years, we have spent a lot of time working at our return factor levels. In those three years, we have reduced the return levels by over 12 percentage points. For example, in 1986, our return levels on our packet seeds were 51.2 percent; in 1987, they were 45.2 percent; and in 1988, they are 39.1 percent. Now that just was not luck; that was managed.

The way it was managed was that we realized that we are in a declining market and so if we do not pack our displays accordingly, then we are just going to put the seeds in and take them back. We also used to service into the retail stores. We have our servicepeople going out with prearranged assortments and they would put in everything in this service pack, some of the seeds were not really required. So now our sales force is servicing by variety, which really only means that they put in what the store needs and not a bunch of stuff that they do not need, so we are not taking all that back.

We also have an extensive program of predictor accounts across Canada where we have monitored now

for the last three to four years all of the seeds that go into these predictor accounts by variety, what are serviced in by variety, what come out by variety, and we are able to pack our assortments by variety count what is needed in the various areas, so that we can control our return levels.

The controlling of our return levels is significant for this company because that is where we can gain some extra productivity because it is just absolute lost productivity to take all those seeds, fill the packages, put them into the displays, send them out all across the country and bring them back. So the productivity levels that have been gained alone in there are very, very significant to the company and its bottom line.

Mr. Angus: I suspect that the marketing representatives are only paid on net sales. Is there any penalty provided for overstocking customers? I do not know how that would work or how you would even control that in your business.

Mr. West: We have an extensive incentive program for all of our sales representatives, and one of the most significant parts of that program is how they manage the return levels in their area. If they have increased return levels, they are penalized; if they have reduced return levels but not at the expense of sales, they are rewarded.

Mr. Angus: Finally, Mr. Chairperson, and then I will turn it over to Mr. Evans from Brandon East, I notice that you have listed as wholly-owned subsidiaries these four companies. Do you own them all outright? Is that a fair statement on my part?

Mr. West: I am not sure. Can you give me the names of the companies?

Mr. Angus: Steele Briggs Ltd., McFayden Seeds Ltd., Pike & Co. Ltd. and Canada Seeds Ltd. are all wholly-owned subsidiaries?

Mr. West: They are.

Mr. Angus: They are all your own?

* (1050)

Mr. West: Yes, they are all wholly-owned subsidiaries of McKenzie's.

Mr. Angus: Did you develop them or acquire them?

Mr. West: All were acquired. The Steele Briggs Company in 1970, McFayden Seed Company way back in about 1945, Pike Seed Company about 1977 or thereabouts, and Canada Seed was a wholly-owned subsidiary of Steele Briggs and it came along with the Steele Briggs acquisition.

Mr. Angus: Where do they show up on these statements?

Mr. West: It is all a consolidated statement. We do not have statements for the individual wholly-owned

subsidiaries. They are all consolidated into the statement that you have.

Mr. Angus: There must be a value for these companies showing up someplace, either in block, I would suggest—Mr. Robinson, if you could just show me where it is.

Mr. Robinson: Yes, in actual fact, we do produce statements annually for all of these subsidiaries. However, they are not operating subsidiaries. The consolidation is all netted out in this consolidated statement. What does appear in our general ledger or books, trial balance, are investments in subsidiaries and amounts due subsidiaries that have occurred either through the purchase in the past or any changes that have occurred. They all have shares and those records are kept in Brandon.

Mr. Angus: They always show up, right, as you look at these things. I noticed that in 1987, you were carrying an incredible inventory by standard. I mean it is just that the figure jumps out at me. Is that figure adjusted on the subsequent year, I would hope—1987 does not look really good, guys.

Mr. West: As the Minister indicated in his opening remarks, I believe he said something about the company had been able to achieve a lot of things in recent years but it had not yet been able to achieve a significant bottom line, but we are working toward that and we will improve it.

The inventory is another level that has been managed better in recent years. In this year, we have managed the inventory levels down by, I believe, \$500,000.00.

Mr. Angus: Down to around the \$90,000 to \$100,000 mark of inventory you are carrying now?

Mr. Robinson: As of October 31, 1988, which is approximately one month ago, our year-end inventory was \$4,507,000.00. Certainly, the '86 level of 5.5 was something that we could not live with. To give you an idea of some of the reasons for it, we got caught a little bit on bulk seed because of the long lead time, the contracts, and the market was going one way and back in 1982-83, that situation was not recognized in time.

Mr. Leonard Evans (Brandon East): Firstly, I want to say that I was very pleased with the Minister's opening remarks. I thought they were rather refreshing. It shows a very positive attitude. I would like to join with him who let us put the politics that have been around this company aside and get on with supporting a company that is not only important to Brandon but important to the Province of Manitoba and has made a contribution over the years, and I trust will continue to make a contribution. So I appreciate those remarks.

I also want to say that I also certainly agree with the comments made about the president, Ray West. You are looking at an almost lifetime employee of the company, someone who is very conscientious, very dedicated, and has a characteristic of loyalty to the

company which I guess he shares with the other employees, because if I have ever seen company loyalty, it is with McKenzie Seeds. It is a family business in a sense and the employees are very proud of it and they work very hard and they have done a great job over the years. So I commend Ray and his staff and everyone involved, and I want to wish the best to the new board in its endeavours as well.

I have a couple of questions to ask and then I would like to make a couple of brief comments. The questions I have, first of all, in 1988, the Minister or Mr. West said that the net income could be around \$250,000 but that was not before interest, or was that before interest?

Mr. Downey: What I am referring to as interest is that the province has not received any payment or any interest for the \$12 million shareholder money that is in the company. So there is no accounting of the interest on that money in the company reflected in this statement. There is interest because there is operating interest and long-term debt interest which is there and I will let Ray make a comment dealing with the interest that is there. I was making reference to the \$12 million of taxpayers' money that is in the shareholders' position.

Mr. West: All of that is absolutely correct. The thing is that the increase in profit as reflected by the Minister is comparable 100 percent to the statement that is in front of you. There is no difference in accounting practices.

Mr. Leonard Evans: So, in effect, when we say \$250,000 income, that is net income comparable to the \$188,000 figure that you see here. Therefore, whatever interest is deducted, then you get to the \$250,000.00.

Mr. Downey: I was probably a little too conservative. I think the figure, if we were breaking it down, is closer to \$300,000 is what the unaudited return would be for the 1988 period. Again, we are not dealing with that in this committee but again, because it is unaudited, I do not want to have to come back and say that the committee was misled and the public was misled.

Mr. Leonard Evans: It was only 288 or something.

Mr. Downey: Well, that is right. It is between \$250,000 and \$300,000, being closer to \$300,000, the 1988 net return for McKenzie Seeds compared to last year's figure.

Mr. Leonard Evans: Yes, okay. The expression "interest" as opposed to "dividends" was what sort of threw me at first, but I know what the Minister means. He means there are no dividends that have been paid on this, which leads me to my other question and I do not know whether anyone has the answers.

What is the cost to the Government? You could look at the investment of the Government through the MDC, and it is shown in the statement here in one of the notes, Class A and B preferred shares, roughly \$12 million. The Class A common shares, perhaps those

are the original shares but, the \$12 million, how would you calculate the cost to Government; I guess the cost that the Government paid to obtain that money at 10 percent or 8 or 9 or 11, or whatever it is? Does anyone have an estimate as to what is the cost to Government per annum, let us say?

Mr. Downey: Just being very rough at this, I would say at 10 percent that \$12 million is \$1.2 million a year is what the carrying cost of that money is.

Mr. Leonard Evans: So that is the Minister's estimate of the cost to the Government. Okay. Are there any other costs?

Mr. Downey: I would ask the manager to comment. I do not know of any other costs other than the money that is invested in it. If there are, I would ask the manager to comment.

Mr. West: There are no other costs at all associated with it other than the input of that equity, \$12 million, and I would think an estimate of \$1.2 million for the cost of that money would be a fair estimate. Of course, that has to be netted against the profit figure that the Minister mentioned a bit ago.

Mr. Leonard Evans: Another question with regard to the annual payroll—Mr. West told us the number of employees, but what does that translate into dollars paid out per annum per payroll?

Mr. West: I believe the figure is about \$3.2 million in annual payroll.

* (1100)

Mr. Leonard Evans: What about other purchases by the company within Manitoba, purchases of services, supply? Some reference was made to seeds and I know that most of the seeds, if not all, are brought in, but there were at one time bulbs and so forth. In other words, what other benefits do we see in Manitoba, purchases from companies or service agencies?

Mr. West: There is a significant amount of purchases within Manitoba; things like printing costs, for example, when we sometimes will have our catalogue printed in Manitoba, and we have a lot of our smaller printing done in Brandon. All of our seed displays, the cardboard component parts are made here in Winnipeg and that is a significant purchase. We spend about \$700,000 a year with Canada Post in Brandon and that has a contributing factor. The purchase of onion sets which we buy here in the Province of Manitoba, some of them we buy in the Province of Manitoba, and we buy some perennial plants from the Morden-Carman area and things of that nature. I do not know what the total purchase would be of Manitoba goods but my guess would be certainly well in excess of a couple million dollars.

Mr. Leonard Evans: I thank the president for that information. Could he also give us an estimate of what percentage of the total revenue that the company

receives comes from outside of the province sales? My impression is that the bulk of the sales is obviously outside of the province. You got in '87, sales of \$14 million, so what percentage or what amount would be from outside of Manitoba?

Mr. Downey: Just a comment briefly to help the Member make his case, if he is trying to make the case that the \$1.2 million, that is subsidy going to McKenzie, is helping Manitoba in another way. I can add as well that McKenzie pays a substantial amount of money to the City of Brandon in taxes as well. So maybe we should talk to them about that at some particular time and get the Member to speak to the mayor and the City Council. Seriously, there is a substantial amount of money in taxes that go to the City of Brandon through the company.

Mr. Leonard Evans: Sure, several hundred thousand, I am sure.

Mr. Downey: Just to round out your case.

Mr. Leonard Evans: Okay. So what percentage of the revenue or how much revenue do you obtain from out of the province?

Mr. West: This would only be a guess, but I would think that there would be less than \$1 million of our sales in Manitoba. So that would mean that there is about \$13 million to \$13 million-plus outside probably.

Mr. Leonard Evans: The other question, and I think I had the answer as well, is it not true that this is still the only national package seed company in Canada? You are No. 1. There is no other. You are No. 1 in terms of sales, your competition is regional companies. There is no other national package seed company in Canada.

Mr. West: That is correct. McKenzie is the only national supplier of garden seeds, packet seeds. We have regional competitors but McKenzie has, I would say, and we estimate in excess of 50 percent of the Canadian market, and our competitors pick up the balance, bits and pieces, in each competitive region.

Mr. Leonard Evans: There is a long history of the company involving A.E. McKenzie and his family, and legislation in 1945 when Dr. McKenzie arranged to bequeath it at some point to the Province of Manitoba. There was legislation brought in, I think it was 1945, and this is where the university was involved. Subsequently the university interest was—

Mr. Downey: A point of order.

Mr. Chairman: Mr. Minister.

Mr. Downey: Is this a statement or a question that we are now getting?

Mr. Leonard Evans: As I said, I had some questions and then I have a couple of observations I wanted to make.

Mr. Downey: Will I be able to respond, Mr. Chairman, to the observations?

Mr. Leonard Evans: Sure, absolutely. I would hope you would agree with what I am saying. What I am trying to say is that because there was a question asked by the Member for Fort Garry (Mr. Laurie Evans) and the university, the interest was removed because at one point of refinancing it was deemed to be in the taxpayers' interests. If you are going to refinance it and put some equity into it, it should accrue to the taxpayers as opposed to the university. If you want to look after the university, you look after it through the Grants Commission or through the Department of Education or whatever. And that is just an aside.

I think the point I want to make—and the Member for St. Norbert (Mr. Angus), I think he used the word "horrendous" or something. I guess from a purely private company, private enterprise point of view, the balance sheets do not look that great. On the other hand, what you have is the public investment here and you have to look at the broader community provincial balance sheet, and as we see from the figures if it is costing the Government \$1.2 million but, nevertheless, \$13 million in sales come from outside of Manitoba, when that money is spent, \$3.2 million is spent on wages in Manitoba. The Minister reminds us of hundreds of thousands of dollars spent to the City of Brandon. There is printing done here, etc., so there are in my judgment net benefits to the province and net benefits to keep this company in the City of Brandon.

My concern has been, and I am saying this for some of the new members of the committee, not for the Minister's edification because this is old hat to him, but for some of the new members that I have always felt that if this company were ever to be sold to the private sector that it would be a loss not only to Brandon but to Manitoba because the location is there. This is what I was going on in the first place with Dr. McKenzie. It started as a field seed company. The package seed was only added as a sideline but eventually it became the important thing and so on.

The problem the company has in my judgment, and I say this in all candour, is the location. The bulk of its market is in Ontario and Quebec. The seeds are imported. A lot of the materials are imported so that you are doing something that the Japanese have been very famous for; they have been great at it. Japan imports all their raw materiel. They process it. They have an excellent labour force. They process it and they export it to the rest of the world. In a sense I look upon McKenzie as doing something along the same lines. We have an excellent staff, very conscientious and so on. We bring in all the materiel or a great deal of it into the province. We process it, package it and whatever and then we send it back out again.

From a private enterprise point of view, if you were to put money into it you might say, well, if I had my money and I want to maximize my profits, perhaps a location because it is a market or a company, a location nearer Ontario, Toronto or Montreal might be better because we would be more centrally located and reduce our transport costs and so on. That is the way to

maximize the profit. This has always been my concern and when you look at it very carefully you can say you can put conditions on privatization, you can put conditions that they must stay in the province, but in the long run things happen and I can just see it slipping out of the province.

I think that the public investment has been a good one and I hope it will be in the future. It is meaningful to the province. It does provide net benefits to the province and the staff is working very hard. We have a new board that I am sure wants to do the right thing. The Minister has already expressed his optimism for the company so I am hopeful that all Parties in the Legislature would continue, and I think they will, to support the existence of the company.

Some people might say, why are you saying that? I say it because there were statements made back during the election about maybe it should be sold to the private sector. That disturbs me not because I am against privatization, per se, because this is a manufacturer, it is not a public utility, it is a very competitive business, but there are some special reasons.—(Interjection)— Well, you know, the Member for St. Norbert (Mr. Angus) says co-op it and sell it to the employees. Many people have thought of that, but when you think it through, you find that there are problems with that too, such as: financing, cash, bank guarantees, because this company has to secure a working capital of some significance from the bank each year because of the seasonality of the business. The banks are very conservative sometimes—small "c" conservative in terms of they want to know that they are going to get paid. I am not so sure —(Interjection)— they feel the treasury of Manitoba can pay, but they are not so sure about a workers co-op.

* (1110)

At any rate, that is about all I want to say. We have the No. 1, the national package seed company in Canada here. It is providing a net benefit to the Manitoba economy and certainly to the Brandon economy, very important. I want to thank the company and the staff particularly for its efforts.

I only have one other question, one area of concern that I would like to address and perhaps this is more to the Minister than to anyone else. It goes back to a question I had in the Session, earlier this year, regarding the employee representatives, the worker representatives on the board.

Firstly, this is the procedure of appointment. Firstly, I want to say, the appointment of Al Lauder and Beth Morrison, are excellent people. I think they are great people. Those are two excellent people, and I do not want anyone to ever think that I believe otherwise. I think they are good people. They are good choices actually.

My understanding is that the workers have developed a practice of having an annual meeting whereby they nominate and elect in a democratic way two of their people to represent them on the board. I would think that is a democratic procedure that should be continued, and this is why I was rather surprised that

the two worker representatives were picked by the Minister to represent the workers. I think, truly, if you want workers' representatives, you have got to let the employees choose their two people. I just think that is democratic, that is the way to go.

So, my question is—I repeat I do not have any problems with the two people, they are great people, they are good people, they are dedicated people, and maybe that is why they were chosen but, on the other hand, I think as long as you say you have worker representatives on the board, you have got to leave it up to the workers. You cannot say, we are the people's representatives if the people do not elect us. So, if they are workers' representatives, they should be elected by the workers. So my question to the Minister is: in the coming year, or the next year, will he revert to the procedure whereby the employees will be given that opportunity?

Mr. Downey: I will respond to the question but I just have to respond to the comment made by the Member as well because I think it is important. I do appreciate his compliment in the case that he makes for public investment. I do think it is important that the recognition of Ray West, and we talk about McKenzie's being a family operation, it is true. If people were listening carefully a few minutes ago, he not only indicated his activity but he said when his father was purchasing seeds. So, it is not just Ray West, it is father, it is a second generation involvement in McKenzie's. So there is a commitment there. I know that the people of Brandon and area, Manitoba, have used the McKenzie situation as somewhat of a political football. That has not done the company any good or the attitude of the people.

I say with the greatest of respect to the Member for Brandon East (Mr. Leonard Evans) he to some degree has been one of the people who has been quite often teeing up McKenzie Seeds, and using it as a football, a political football, for—and I will provide evidence of that, Mr. Chairman. In fact, probably it was he and his administration who put in danger the McKenzie Seed Plant and operation because of some of the mishandling under his term of office—and I say that with the greatest of respect—to the point of which he was pulled as the Minister responsible for it, not that many years ago because of some questions.

An Honourable Member: If you want to get into debate on this, we will be here all morning and maybe another two weeks.

Mr. Downey: No? I am just trying to—

Mr. Chairman: Order, please; order, please. I recognize the Honourable Minister.

Mr. Downey: I am just trying to be very kind to the Member, seriously I am. I was going to give him a compliment in a minute but he is not prepared to wait and accept it.

An Honourable Member: . . . have to hit me over the head a couple of times.

Mr. Downey: No, no, no, Mr. Chairman. He is far too sensitive.

Let me say that their determination and his determination to whatever happened to see it through came about. Now it is, I hope, a new day for the McKenzie Seed operation and opportunities there. I am not so sure from where the Liberals are at, at this particular time, but you made reference to their comments during the election campaign. I do not know whether they have now changed direction. We will leave it up to them to clarify their position. I know we have been very clear on where we are at.

I want the Member to know, the Member for Brandon East (Mr. Leonard Evans), when it came to the appointment of the employee individuals that, to my knowledge, there was not a policy in place that he refers to, that the membership did in fact vote. I want the Member to know that when I did make the appointment prior to that, I had talked to some of the people at McKenzie Seeds, that the two people were president metal winners at McKenzie's. I think one of them has worked there for 22 years and another one 15 or 17 years. I appreciate he is not picking on them individually. It is the process that he is talking about.

It is unfortunate that Mr. Christophe did not communicate directly with me. I never did get a letter directly from him, talking to me about the process. It was I who signed the Order-in-Council and the Premier. I did not have the courtesy of getting a comment directly from him or a letter from him. It went to Mr. Ray West who was actually not involved politically at all. So it is not the Member for Brandon East, it is the way in which it came back to me which was somewhat upsetting.

Let me further conclude that there was a vote of the membership that fully endorsed the people who were appointed from the work force at McKenzie Seeds. There was a vote of the work force that fully endorsed them. I want the record to be very clear, I want the media to know and I want the public to know, that what was carried out I do not believe was a policy that the Member talks about. I do not think it was ever put in place. In fact, I am not aware of a policy or an absolute need to have to put employees on the board. It was a continuation of a policy which I agreed with. I thought it was important. I thought it was important to discuss with some of the membership, some of the people out there who would best suit on the board, not on a political basis but on long time activity in the company. That was done.

Since that appointment was made, there was a, if the Member wants to use the term "ratification" of those appointments by the membership. I hope, as I said earlier, and the Member agreed with me, let us put that political thing behind us. Let us get on with the opportunities for McKenzie. I say specifically, I see two major opportunities. I see the opportunity into the United States, where immediately south of the border there are twice the customers that we are now trying to deal with in Canada. So that gives you that market. If you can put a complimentary product in those retail outlets that is acceptable to the public and leaves it on the counter 365 days rather than just the garden scene product, I think you have got a tremendous

opportunity for expansion and not get into some unrelated activities that are adventures that the taxpayers quite honestly do not believe is their mandate.

I think the people of Manitoba, No. 1, they are supportive of job security and opportunities for new jobs. That is the kind of attitude I bring to McKenzie and I know the board does and management. I appreciate the Member for Brandon East saying let us leave the politics behind, history is history, and let us do some things with it in the future that will make the taxpayers of Manitoba feel proud of it because it in fact is able to pay a dividend on the \$12 million.—(Interjection)— Thank you, Mr. Chairman. It was not a direct meaning for any discrediting of the Member, it was of his Government and his former Premier who I was referring to.

Mr. Leonard Evans: Mr. Chairman, specifically my question is, my understanding was that this was the procedure. I do not have a lot of detail but my understanding was that they did meet and had an annual meeting, or whatever you want to call it, of the union and they nominated and voted on two members. I appreciate they ratified it after the fact, so my question is: what about this coming year? It is possible that if they have a vote they will re-elect these two people? I do not know, but again I am simply talking about the process. It is my understanding the process was put in place and now it has been changed, so what about this coming year?

* (1120)

Mr. Downey: To my knowledge, and I will do further investigation of this, there was no policy or agreement in place, that was the practice, but I will check it out to clarify the point. There is no use us debating it back and forth when the information, I am sure, is available. I am not sure when the last employee appointments had been made under his term of office, what the history has been, but I am quite prepared to find out. I think it is important to do so and when I do I will let him know off the record or on the record, whatever he likes.

Mr. Leonard Evans: Fine, no matter. I am more interested in getting to the bottom of it and I believe it was the practice, but I do not have any documents or anything to prove it. My understanding was that was the practice, and if it was not it should have been. Because I think if you really want to have—I do not care what company or what organization or what Crown agency or whatever, if you are talking about worker representatives, they should be elected by those people. That is my particular view. I am not commenting on what has happened or anything like that. I just feel that is the way to go.

I just want to make one final comment, unless the Minister wants to goad me into a long speech here. I have been in this Legislature for 20 years, I cannot believe it. Especially when I first ran, I did not even intend to really get into the political arena. It was almost like a last-minute decision, but I have been around for 20 years and I want to say that one of the first local or constituency problems I had was McKenzie Seeds,

when I was advised by one of the board members, as an MLA for the area, that it was about to be sold to Ferry-Morse Company of the United States for I think about \$200,000.00. There are Cabinet documents saying that the Weir Government was either going to sell it or liquidate. If they could not sell it they were going to just liquidate, just fold it up, because it had been losing money, even in the Sixties.

I just want to say that we, my Government, the Government I was a Minister of with Mr. Schreyer, made a decision to keep it because, even though it had tough times, we thought we should give it a chance and we have stuck by it all those years and I feel very strongly. I have done my best to stay by this company through thick and thin, and I think it is important to know that the problems that we have had today are not new problems.

There have been problems way back in the Sixties, but I think the company has grown over that time. This is one thing. The company it was in '69 is not the company today. Today it is twice, three times as big, Ray. It has certainly grown and it was not the No. 1 package seed company then, Steele Briggs was the biggest company. So having acquired Steele Briggs in the early Seventies, it became the No. 1 seed company and I think it is something that we should be proud of.

The people have worked very hard on behalf of this company. It is a very competitive business, a very difficult business. It is not easy at all and it is a continuous struggle, but I continue to believe in the company and it continues to make a net benefit to the provincial economy and particularly to the Brandon and the Westman economy so, having said that, I repeat that I trust that the Legislature, all Parties in the Legislature, will continue to support, will support the company in the years ahead.

Mr. Downey: Mr. Chairman, just again, my comments of earlier stand as to the way I feel about it and the activities there. I do not think there is any use in repeating it, if the Member wants to read them carefully. I just go back again and say—and I want to be clear—if the Member is indicating that he believes, and he says this about the worker employees, I do not totally disagree with him but there should be a feeling that they have to all work together, that representation there should be in some agreement and that was done. I can assure him of that, that there was no reaction other than positive to what was done. You know, to carry that to the nth degree, that every time you appoint a board member that the general public should vote them in or whatever, you have to really consider where he is coming from on the total picture. People are elected by the public as MLAs, appointed as Ministers, to carry out certain responsibilities.

Every four years we have the opportunity to test whether or not that was carried out properly or maybe some time shorter or sometimes longer periods of time. One does not predict the future at times like this other than to say that I think that the direction that the board is giving it, that the management enthusiasm and the enthusiasm of the workers can do nothing but augur

well and, of course, the 1988 report is evidence of that. They know where their problem areas are and are addressing them. Mr. Chairman, I am prepared if there are any other questions to deal with them, if not, prepared to pass the report.

Hon. Edward Connery (Minister of Labour): I could not have asked this question a few short years ago, but I would like to know what percentage of the Dutch sets are contracted in Manitoba that McKenzie's sell?

Mr. West: Mr. Chairman, I am not absolutely certain. I can give the Honourable Member at a later date the specific information, but our guess is—Mr. Robinson gave me figure here—75 percent would be Manitoba grown. I am not sure of that figure, but I can get that information for him quite easily.

Mr. Connery: What other areas do you get Dutch sets from?

Mr. West: Mr. Chairman, we will some time get some onion sets from the Thetford area in Ontario and also from across—in Europe, in Holland.

Mr. Connery: Buying them out of Holland, would it be because of shortages or would you contract these in the spring?

Mr. West: I am sorry, Mr. Chairman, I missed the question.

Mr. Connery: The onion sets that come from the Netherlands, are they contracted or are they purchased when there is a shortage of sets in Manitoba and Canada?

Mr. West: Mr. Chairman, they are contracted and we do have some of our customers who absolutely insist that they have Dutch grown onion sets and not Canadian grown. If we do not look after that need, then some of our competitors are going to fill that void.

Mr. Connery: Is there a significant amount contracted in Ontario?

Mr. West: Mr. Chairman, again, I am not certain of this, not a significant amount, no. In fact, we might pick up more in the open market in Ontario than we would on the contract basis.

Mr. Connery: So can we be assured that McKenzie's are attempting to purchase as many pounds of onion sets in Manitoba as is at all possible?

Mr. West: Mr. Chairman, what we would like to do is have a balance in the locations in which we contract onions, because if we have all our onions contracted in one area, as McKenzie's used to do many years ago, you are very subject to crop conditions and the event of crop shortages. We look for a little bit of a balance and that balance includes some European grown Dutch sets because we have customers who require that. It involves some sets grown in Ontario. If the crop conditions here in Manitoba are poor, we might have

a better crop in Ontario, but the majority of our onions are contracted here in Manitoba. The reason for that is, firstly, because we as a Manitoba company want to support Manitoba; and, secondly, because economically that is the best place for us to buy our onions.

Mr. Connery: Do you do packaging in Ontario, or are those Ontario onions brought to Manitoba and then shipped back to Ontario?

Mr. West: Again I am not absolutely certain of this, but we do a lot of our packaging of onions here in Manitoba with Manitoba-grown sets, and there could be some onions from Ontario come here for packaging, but I believe not. I think we use the Ontario onions for bulk. We sell them in 50-pound bags. That is what I think we use the Ontario onions for.

Mr. Connery: Is McKenzie Seeds doing any storage of onion sets or other bulbs in their plant at Brandon?

Mr. West: No, we do not store at all. We used to many years ago. We would bring them in after August and September at harvest time and we would dry them. We have discontinued that. All the onions now are stored in the areas in which we buy them.

Mr. Connery: Thank you.

Mr. Neil Gaudry (St. Boniface): No politics, just strictly from an accounting point of view, it was mentioned that no statement was prepared for companies. Was there any reason for that or what is the purpose?

Mr. Robinson: I believe that I clarified that we do prepare statements for all of our subsidiaries; however, they are not operating subsidiaries. Therefore, the statements have remained unchanged literally, except for the dates since 1983, since I came there, and I believe prior to that, meaning that there are no revenues or expenditures that are going through the subsidiaries. Therefore, the statements reflect only amounts due to the parent or amounts due to subsidiary from parent.

* (1130)

Mr. Gaudry: In looking over the statement of operations, the cost of sales is one figure of \$7 million for '87. What is included in that figure?

Mr. Robinson: Included in the cost of sales is all of the raw material that we purchase and convert into finished product, for example, the seed, the cardboard, as well as labour from the plant, which totals approximately \$1.2 million, plus related overhead in the plant, plus products that are purchased as finished products for our Mail Order or Direct Marketing Division.

Mr. Gaudry: In the expenses—selling, marketing and distribution—you have \$4 million and then administration \$1.3 million. There was a mention of three point some odd dollars for payroll. Where is that included? Is it in the cost of sales?

Mr. Robinson: Approximately \$1.5 million of plant labour and related benefits is included in cost of sales.

The balance is divided up between selling, marketing and distribution, as well as administration.

Mr. Downey: Mr. Chairman, in concluding, I think it is fair, and I have just checked out some files here that the Member for Brandon East (Mr. Leonard Evans) I think would not want the record to show what he has put on and maybe would want to comment on it or withdraw or adjust it, because I think being an Honourable Member that it would be important that he clarify the position particularly when he mentioned when he came in office here in 1969 or 1970 that it was the Weir Government that was prepared to sell it, and I think he would want to rectify this or clarify it, in view of his most current statement. I do this with the greatest of respect.

I make reference, Mr. Chairman, and these are activities that took place:

A memo to Len Evans from the Director of Food Products Branch, Industry and Commerce, and this is February 4, 1970, confirming instructions by Evans, that being the Member for Brandon East, to contact Canadian parties interested in taking over McKenzie Seeds: February 10, a memo signed by Evans, letting his Deputy Minister know in writing, "During your absence, a short while ago, I asked Mr. Robertson of the Food Products and Chemicals Branch to investigate the possibilities of a company that might be interested in taking over McKenzie Seeds"; February 13, 1970, a memo from Deputy Len Evans, Minister, reporting that firms contacted so far cannot be considered serious prospects for the purchase of McKenzie Seeds—submissions of new offers were anticipated, however; and April 10, 1970, Winnipeg Tribune Business Editor interview Len Evans, Mr. Evans is quoted directly as, "Frankly the seed business is the last industry that we want to be in." Roger Newman, who is a reporter, also states that nevertheless, he, Mr. Evans, indicates that the Government is still prepared to sell if the right offer comes along. An attempt has been made to interest several prospective purchasers but there has been no takers as yet.

Just, Mr. Chairman, I think the Honourable Member would want to know that was his position at that particular time so that the record today, if he wants to make any comments or clarify it, I think would be extremely important. Thank you, Mr. Chairman.

Mr. Leonard Evans: For the information of the new Members of the committee, this is not some new revelation because this has been discussed. It was mentioned in the Tribune. It has been discussed in this committee years back in the Legislature.

The fact is that at the latter part of 1969, around Christmas, we were advised that the company was about to be sold by the Government to Ferry-Morse. The fact is, and we have got documents—in fact I have it in my files—the term was the Weir Government was either going to sell it, and if they could not sell it, they were going to liquidate it because it had not been profitable period, get rid of it. Mind you, it was very small at that time; 40, 45 employees, no, maybe 25, 30 full-time and maybe 90 at the seasonal peak. We

considered it and we decided it was not in the interest to sell it to Ferry-Morse because we could not get a guarantee that they would keep it in Brandon or Manitoba beyond two years. Now that was my understanding. At that point, I suppose, if they would guarantee it and were going to build a new plant and say they were going to stay, it would have been different. We could get no guarantee that they would stay in the Province of Manitoba or in the City of Brandon and, therefore, decided that we should not sell this, that we should make a go of it. I recommended strongly that we do not sell it to Ferry-Morse. To try to keep it in Manitoba, we should not sell it to that company.

As I said earlier today, I am not against the privatization per se because it is not a public utility which lends itself to public ownership, it is in a very competitive business. Ideally, probably, private ownership has a lot of merits in this kind of an industry. Given the particular circumstances and historical background, I am convinced that if it were into private hands, it would slip out of the province; let alone Brandon, it would slip out of the province.

So we did, at that time, look for possibilities. In fact, I was directed, as I recall, you know, well okay, we will not sell it to Ferry but is there anything else, any possibilities? I have come over the years and since that time, strongly feel that at that time we were looking at a small company. We decided it would be in the best interest of Manitoba and the city to keep it, certainly not to sell it to a company who said they would not guarantee any more than two years in Manitoba or in Brandon. If there were another private company, well, why not?

Over the years it has become quite evident to me that privatization, in this company, would really mean the ultimate removal from the Province of Manitoba. I have come to that conclusion. Therefore, I am a strong believer and I opposed any efforts in the past really. I will say this, that Governments do get offers from time to time. I do not know. Maybe the Minister had offers to buy the company. We have had offers over the years. I mean, that is the way the business works. You own something, somebody, whether you solicit or not, makes an offer to purchase or they want to buy something because they think they can do a better job of it or it is in their particular interest and would you like to sell. I am sure I do not know, maybe I should have asked the Minister if he got any offers to sell the company recently. Is he entertaining any privatization offers at the present time? That is a legitimate question perhaps. I was not going to pursue that but that happens, but I say I have come to this position, and I hold it very strongly, that it would not be in the interest of the company to privatize it.

Mr. Downey: Well, Mr. Chairman, I just thought it was only fair that the committee know that and the public know and let it be on the record in view of the Member's comments earlier that it was his comments about the Weir Government. It is fairly well-documented as to what his position was at that particular time. I am prepared to let the matter rest and it is just a matter of making sure the records of the province are clear as far as the Member for Brandon East is concerned.

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Mr. Leonard Evans: Mr. Chairman, again the Minister started off on the right foot but now he cannot avoid, he just cannot stay away from political in-fighting. He just cannot do that. You know, be nice, but then at the same time hit me over the head in the process. I say again that I have and the record can be as clear as you want to make it, I have just made a statement and the people of City of Brandon in my constituency know where I stood and what I have done over the years on behalf of this company. I have no problem with what the Minister has so-called revealed because that has been discussed before and I have explained the historical situation.

I have fought for this company. In fact, I probably spent more time on behalf of this company than almost any single other problem I have had within the constituency but it has been well worth the time and the effort. I say that there is no inconsistency what the Minister has said, there is no inconsistency. We did not

sell it to the Ferry-Morse Company and I can show you documents on this if you like.

Well you know Mr. Banman, one man who used to be the MLA for La Verendrye, we talked about the same thing. For the Minister all of a sudden, well, you see this Tribune comment. Well, it was in the Tribune and Mr. Banman brought it up and we discussed it at that time. I say again that I have come to the opinion and I hold it very firmly that, and I would debate this with anybody, it would not be in the interest of the company to privatize it.

Mr. Chairman: Are there any more questions or concerns from committee members? Is it the will of the committee to pass the Annual Report of McKenzie Seeds? (Agreed)

Committee rise.

COMMITTEE ROSE AT: 11:37 a.m.