

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON
PUBLIC UTILITIES AND NATURAL RESOURCES

Tuesday, 9 September, 1986

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. S. Ashton (Thompson)

ATTENDANCE — QUORUM - 6

Members of the Committee present: Hon. Messrs.
Doer, Parasiuk, Penner, Hon. Mrs. Smith, Messrs.
Dolin, Enns, Filmon, Orchard, and Scott

APPEARING: Mr. G. Holland, General Manager and
Chief Executive Officer, Manitoba Telephone
System

Mr. D.J. (Don) Plunkett, Operating Officer -
MTX

Mr. M. Provencher, Director - Finance

Mr. J. McGuire, Secretary to MTX Board

Mr. M. Aysan, Manitoba Telephone System
Employee

Mr. B. Toews, Manitoba Telephone System
Legal Department

Ms. J. Edmonds, Chairman of the Board

MATTERS UNDER DISCUSSION:

Annual Report of Manitoba Telephone System

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MR. CHAIRMAN: Mr. Mackling.

HON. A. MACKLING: Thank you, Mr. Chairperson.

I will call upon Mr. Holland and he will call upon other members of staff to provide further answers to questions that were raised, either at the past committee meeting or in the House, that had not been fully answered earlier.

Mr. Holland.

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, there have been a number of questions on the SADL joint venture and its operating structure and Don Plunkett has a descriptive paper on that.

MR. CHAIRMAN: Mr. Filmon.

MR. G. FILMON: Yes, I wonder if you could determine the length of the presentation and whether or not you would be just as well to receive copies of it and deal with the highlights, if you have any indication of the length of the presentation.

HON. A. MACKLING: I have no objection to that. Mr. Holland indicates that it would be helpful to the committee to put the operation in context, however it's about eight minutes. If members feel that they would rather defer this or whatever, that's up to the committee to decide. Mr. Holland feels that it would be useful to read it into the record.

MR. G. FILMON: Proceed.

MR. D. PLUNKETT: Mr. Chairman, on January 24, 1982, at Alkhobar, Kingdom of Saudi Arabia, the intending partners, Al Bassam International Company and MTX Telecom Services Inc. prepared a draft memorandum of understanding and business plan for a joint venture company.

The following day, a Memorandum of Understanding dated January 25, 1982, was entered into between Al Bassam International Company and MTX, attested for them respectively by the signatures of Abdullah Al Bassam and S.G. Anderson. This memorandum of understanding established, in general outline, the basis upon which the negotiation of the joint venture agreement would proceed and required the approval of the respective boards of the directors of MTX, MTS and Al Bassam International Company.

The business plan attached to the draft Memorandum of Understanding of the previous day was incorporated into the Memorandum of Understanding of January 25, 1982, by reference.

Al Bassam International Company held the Kingdom of Saudi Arabia Commercial Registration No. 4010, the application for registration of which showed that it was the trade name of a joint liability partnership called Abdullah Abdel Aziz Al Bassam and Company, the partners of which were Abdullah Abdel Aziz Al Bassam and Tariq Abdullah Al Bassam, both of whom are Saudi nationals. These gentlemen are father and son.

On April 11, 1982, at Alkhobar, Al Bassam International Company and MTX signed a shareholders' agreement, which essentially formalized the intent of the previously mentioned Memorandum of Understanding. It was signed by Oz Pedde on behalf of MTX and by Abdullah Al Bassam on behalf of Al Bassam International Company. It essentially provided that the Al Bassam and MTX would cause to be formed a Saudi Arabian limited liability company as the vehicle for their proposed joint venture and in which the two parties would hold equal shares.

Attached to the agreement as Schedules A, B and C respectively were the proposed Articles of Association, Business Plan and Management Agreement, which were to be adopted in due course once the limited liability company was created.

The principles established by the parties were formalized in the shareholders' agreement prepared by MTX legal counsel and Schedules A, B and C were

expressly made subject to the approval of the Board of Directors of MTX and a review by Dr. Zaki Mustafa whose review was to be on behalf of Al Bassam International Company.

The Articles of Association, Schedule A, set out the proposed organization and rules for the proposed limited liability company and implemented the intent of the original Memorandum of Understanding as to the equal contributions by the two parties to capital and control of its joint venture. Ordinary decisions of the shareholders required a majority of 75 percent of the issued share capital and major decisions required unanimity of all shareholders.

The Management Agreement, Schedule C, was to be entered into between Al Bassam International Telecom, a division of Al Bassam International Company of the first part in Datacom, a limited liability company to be created and registered under the laws of the Kingdom of Saudi Arabia of the second part.

In order to understand this agreement in light of the current situation and to avoid confusion of names, the reference to Datacom in the Management Agreement, Schedule C, should be considered as a reference to Saudi Arabian Datacommunications Company Limited, SADL, which became the actual name of the limited liability corporation.

Similarly, where reference is made in the Management Agreement to Al Bassam International Telecom, this should be considered as a reference to what became in due course Al Bassam International Datacom.

The reasons for these changes will be mentioned hereafter. The draft management agreement contemplated that Telecom understand Al Bassam Datacom would accept purchase orders from Datacom, understand SADL and in turn would order the equipment from MTX.

Provision was made for the pricing of products on the basis of MTX invoice price, plus actual in-place cost, plus an administration charge of one-half of one percent per year, later changed to 3 percent per year, based upon the total annual value of products sold by Telecom to Datacom, with the total of all added charges not to exceed 18 percent of MTX invoice price unless the party should otherwise specifically agree in any transaction.

At the same time as the shareholder's agreement was signed, Al Bassam International Company and MTX entered into an interim agreement dated April 11, 1982. The reason for this agreement was that the parties were advised that it would take some time for the proposed joint venture limited liability company, SADL, to receive its commercial registration entitling it to carry on business in Saudi Arabia.

Because the parties wished to see their operations begin forthwith, it was decided that a separate division of Al Bassam International Company should be created for the purpose of carrying on those operations for the benefit of the parties on an interim basis. The creation of the new division of Al Bassam International Company provided the advantages that would be entitled to operate under the existing commercial registration Number 4010 of Al Bassam International Company and in connection with the importation of products into the Kingdom, it met the requirement of the Kingdom's laws that importation could only be by a corporation, the principles of which were all Saudi nationals.

The interim agreement established the basis for the operation of this new division, in particular, establishing the manner in which purchase orders were to be initiated, approved and handled, establishing Mr. Atila Aysan, an MTX employee, as General Manager and Mr. Chafe Abou Richeh, a representative of Al Bassam as Chief Executive Officer. Provision was made for monthly financial reporting to include a profit-and-loss statement and balance sheet to each of the parties.

Business operations commenced on August 15, 1982 under Al Bassam International Datacom, which was created as a separate division of Al Bassam International Company. The establishment of the Datacom Division represented the views of each of the parties that it was desirable from the standpoint of control and accountability that a new division be established to operate instead of utilizing the Telecom Division of Al Bassam International. It was intended that it would operate the business for the benefit of the joint venture parties until the creation and commercial registration of SADL was accomplished following which it would remain in place as the vehicle by which the joint venture would effect compliance with the Kingdom's laws governing the importation of products into the country for the purposes of the joint venture operation.

During the interim period therefore; i.e. until June 7, 1983, the business of the joint venture operated under the interim agreement and in accordance with the principles established by the shareholders' agreement of April 11, 1982. In February, 1983 MTX had been advised by their Saudi auditors who were required to satisfy themselves of legal compliance of the undertaking of the new company SADL, that to be in compliance with the laws of the Kingdom, SADL could operate only on the basis of the sale or delivery of products to which it added value before reselling. Therefore, it became necessary for the parties continuing to establish the proposed joint venture in accordance with the principles established by the shareholders' agreement to restructure the business organization in order to comply with the laws of the Kingdom.

On the advice of the auditors Datacom Division would be continued after SADL received its commercial registration and the parties further agreed to enter into an agreement to be effective as of June 7, 1983 whereby SADL agreed to furnish to Al Bassam International, Datacom Division, engineering and technical support services, including installation, repair and maintenance and marketing support services for the business of Datacom Division in the sale and/or supply of data communications products.

For these services, Al Bassam Datacom Division agreed to pay us - to SADL on a monthly basis the amount of 250,000 Saudi riyals, which fees were to be reconciled at the end of each fiscal year of Datacom Division, and be subject to review and amendment by the parties.

It was the intent of the parties that the principles of the joint venture, as established by the shareholders' agreement, would still be implemented through the following structure: Al Bassam International Datacom Division would be maintained as a separate division of Al Bassam International Company and would be operated solely for the business of the joint venture.

Inasmuch as it was a division of a company wholly-owned by Saudi nationals, it met the requirements of Saudi law with respect to the importation of products and with respect to engaging in non-value added trade within the kingdom.

As well, Datacom Division received preferential consideration for pre-qualifications of bids and in the awarding of contracts for projects. The management of Datacom Division would be provided by SADL and the parties would share equally the cost and profit of the division. Should there be any cost not covered by revenues, the amount would be accumulated and carried forward as a first charge on future profits.

In the events that profits should accumulate, they would be carried through to SADL through the support services fee and, if required by an amended fee, reflecting the fact that the operation and management of the Datacom Division producing those results float from the services provided by the parties through SADL.

The control of purchases, sales, banking and administration in Datacom Division rested exclusively with SADL through the provision of its staff under the terms of the management agreement of June 7, 1983. The results of that operation, being an operation devoted exclusively to the business of the joint venture, would be known to and controlled by SADL on a continuous day-to-day basis. The joint venture has operated on this basis since the commercial registration of SADL.

The parties were advised that this arrangement of the business met the requirements of Saudi law and provided an appropriate vehicle for the operation of the joint venture of the parties in the Kingdom. From its inception, the auditors of SADL, Al Bassam International Company and its two divisions - Telecom and Datacom - have been in our Talal Abu-Ghazaleh and Company. In order to facilitate accounting and control, business plans and operating results of the Datacom Division in SADL have been reported to the parties on a consolidated basis in order that the results of the complete joint venture operation would be readily apparent to the parties.

However, by reason of Datacom Division existing in the legal structure of Al Bassam International Company, the auditors have been required by law to prepare and certify audit reports on SADL as a separate entity and on Datacom Division as a division consolidated with the entire operation of Al Bassam International Company.

The structure within which the joint venture operates has permitted continuing effective control and reporting of the entire joint venture operation consisting of Datacom Division and SADL to the parties on a daily, monthly and periodic basis, but the requirement for formal audited statements of the two separate legal entities, SADL and Al Bassam International Company, has resulted in the audited financial statements of Al Bassam International Company including its divisions being provided directly to the partners of Al Bassam International Company.

Neither SADL nor MTX has ever received a copy of the Al Bassam International Company consolidated financial statements which are proprietary to the partners of that company. Because SADL effectively controls the entire operation of Datacom Division, MTX has been satisfied to rely on the consolidated reporting of SADL and Datacom Division operations.

The parties have continued the operation of the joint venture through the business structure above described, upon the basis of the shareholders agreement of April 11, 1982, which requires that the funding and profits of the operation shall be provided and shared equally between them. The established administrative procedures for transmission of the profits in Datacom Division to SADL by means of the support service fee under the management agreement and the accumulation of costs against future profits in the Datacom Division satisfied the said principles of the shareholders' agreement, except in one respect.

Where deficits are incurred and accumulated in Datacom Division, without offsetting profits, there is no established mechanism by which Datacom Division may recover from SADL or MTX contribution towards the accumulated deficits. Accumulated deficits and liabilities in Datacom Division are legally the obligation of Al Bassam International Company and have therefore been consistently reported as such.

It is considered by MTX that an effective right of recovery by Al Bassam International Company from MTX of its share of accumulated Datacom Division costs would be by means of set-off against any MTX accounts receivable from Datacom Division. Further, it has always been the intention of MTX to honour the principles of the shareholders' agreement.

The operation and reporting of the joint venture within the legal disciplines of the business structure outlined above has had the informed approval of the board of MTX at all stages and the unqualified audit certificates of Arthur Andersen and Company, the auditors of MTS and MTX, on the financial statements of MTS and MTX, after full disclosure to them of the foregoing business structure, and as stated in Note 11 to the MTS financial statement for the fiscal year 1984-85, and Notes 2, 3 and 4 to the MTX financial statements for the fiscal year 1984-85.

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, there were some questions. The SADL accounts receivable at the time of the \$2 million shareholders advance - what assets were purchased on June 7, 1983, with the investment of Saudi riyals, \$4.4 million. The date that MTS discounted the bank drafts guaranteed by the Byblos Bank, \$725,000 U.S., the Letter of Guarantee that was received from Al Bassam International; and the interim accounting for the period August 15, 1982, to June 7, 1983 - Maurice Provencher is prepared to provide that information.

MR. CHAIRMAN: Mr. Filmon.

MR. G. FILMON: I wonder if there's a copy available for us of the statement Mr. Plunkett just read?

MR. CHAIRMAN: I believe copies are available. Mr. Provencher.

MR. M. PROVENCHER: Mr. Chairman, in response to the first question, what were SADL's outstanding receivables at the time the \$2 million receivables were reclassified as capital. The Datacom partners agreed

to the shareholders' advances at a May 29, 1985 partners' meeting. The SADL receivables at that time were a receivable amounting to Saudi Riyal 5,115,947.89 from the Datacom Division of Al Bassam International, and miscellaneous receivables amounting to SR 3,627.79 riyals.

The next question is: Provide details of the assets that were sold to SADL by the Datacom Division of Al Bassam International effective June 7, 1983. The assets that were purchased at fair market value by SADL were as follows: inventory Saudi Riyal, 423,495; office furniture and fixtures, Saudi Riyal, 239,718; housing, furniture and fixtures, Saudi Riyal, 647,226; leasehold improvements, Saudi Riyal, 206,662; tools, Saudi Riyal, 240,795; vehicles, Saudi Riyal, 174,240; Al Mursil messaging system, Saudi Riyal, 2,487,864.00. Total assets purchased at fair market value were Saudi Riyal, 4,420,000.00.

The next question: Provide the date that MTS discounted the bank drafts guaranteed by the Byblos Bank, 725,000 U.S. Letter of Guarantee that was received from Al Bassam International. The four bank drafts guaranteed by the Byblos Bank, 725,000 U.S. irrevocable letter of guarantee for Al Bassam International were discounted with the Bank of Nova Scotia by MTX on September 26, 1983.

At the previous session of the committee, I did undertake to provide the audited financial statements for the interim period August 15, 1982 to June 7, 1983. Sheik Abdullah is still out of the country, but I will table the draft statements and we will undertake to obtain the final signed copies of the Auditor's statements and audit report when Sheik Abdullah returns to the Kingdom of Saudi Arabia.

I would briefly like to explain these statements. The first sheet is just a covering sheet and it's addressed to Al Bassam International Company, Datacom Division, Alkhubar, Saudi Arabia, and it's the financial statements and Auditor's Reports for the period June 7, 1983. All these statements are preliminary and tentative for discussion purposes only. It's by Telal abu-ghazaleh and Co.

The next sheet is really the Auditor's face sheet and index which indicates that the contents of the report are an Auditor's Report on Page 1, a balance sheet shown as Exhibit "A", a statement of income shown as Exhibit "B" and notes to financial statements.

The next report is the Auditor's Report. It's addressed to the partners of Al Bassam International Company, Datacom Division, Alkobar, Saudi Arabia, and it's the standard Auditor's Report and basically states that, in our opinion - and that's the opinion of the auditors - the financial statements examined by us present fairly the financial position of the division at June 7, 1983, and the results of its operation for the period from inception August 15, 1982 to June 7, 1983, in accordance with generally accepted accounting principles. It's dated in Dhammam, October 31, 1983, and the final report is signed by Talal abu-ghazaleh and Company.

Exhibit A is a balance sheet. The balance sheet indicates that there were current assets of \$2,587,229.00. Those assets were sold at cost to either the Datacom Division of Al Bassam International or to SADL. The balance sheet indicates fixed assets, net depreciation of \$3,896,751, as at June 7. These assets

were sold at a fair market value amounting to \$5,651,015 Saudi riyals.

Current liabilities basically were split among the partners on a 50-50 basis as of June 7 in order that the interim operations could be wound down by both partners. The balance sheet indicates a deficit which the partners considered as a developmental expense during that period of \$1,754,264 Saudi riyals.

Exhibit B is a statement of income. It indicates sales, cost of sales, general administrative expenses, other income, any deficit for the period of Saudi riyals \$1,754,264.00. This interim period deficit was considered as a developmental expense by the partners and was recovered by the partners by the sale of assets at fair market value to SADL and the Al Bassam International Company, Datacom Division.

MR. CHAIRMAN: Mrs. Carstairs.

MRS. S. CARSTAIRS: Mr. Provencher, that year, should that be 1982? Right at the top of Exhibit B, it says August, 1983 to June, 1983. Should that be August, 1982?

MR. M. PROVENCHER: Mr. Chairman, that's correct.

The notes to the financial statements: Note 1, is the organization, the nature of the business. Note 2, is significant accounting policies. It basically states that fixed assets are recorded at cost. When fixed assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from their respective accounts and their resulting profit or loss is recorded in income.

Foreign Exchange - it's just the normal accounting practice for foreign exchange where the foreign currencies are translated into Saudi riyals at the exchange rate prevailing of the data transaction.

Note 3, identifies the prepayments and other receivables. Note 4, provides full disclosure on the fixed assets as of June 7 and is carried forward to the balance sheet. Note 5, is an itemization of general and administrative expenses and is carried forward to the Statement of Income.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, just one question on Exhibit A of the balance sheet. You've listed in there, 3 down, under Assets, Deferred Commission. What's the explanation for Deferred Commission?

MR. M. PROVENCHER: Mr. Chairman, those were commissions that were paid by agreement to our sales personnel when the customer accepted the order. The commission was paid in three bases on acceptance; the order bought by the customer; on delivery of the equipment to the customer; and on final payment of the account by the customer, and is totally in accordance with company policies.

MR. D. ORCHARD: Mr. Chairman, it is my impression, and a search of Hansard will correct it, but we were under the impression that no commissions were paid from previous indications by yourself possibly, Mr. Provencher, at previous meetings; that there were no commissions paid for sales in Saudi Arabia.

MR. M. PROVENCHER: Mr. Chairman, I always thought that question related to third parties not associated with the joint venture. These are salesmen. It is a commission sales plan where they're on a basic salary plus commission. Their salary was considerably lower than the other staff that were there and the sales commissions are in accordance with the contracts.

MR. D. ORCHARD: So then just to make this absolutely clear then, commissions were paid, and if one recalls one of the allegations in the first affidavit, wherein sales reports were falsified - I think was the allegation - in order to collect commissions, that would be entirely possible because commissions were then paid to salesmen. Is that correct?

MR. M. PROVENCHER: Mr. Chairman, commissions have been paid since the inception of the interim operations and have continued after the restoration of SADL.

Relating to your other comment, I don't think I can comment on that, because that's under review by both the RCMP and the management consultants.

MR. CHAIRMAN: Mr. Scott.

MR. D. SCOTT: I was wondering, a couple of minutes ago you read off a number of different assets as of June 7, 1983, which were transferred from ABI Telecom into SADL and the statement here is for the Datacom Division of ABI; I'm looking at the fixed assets as listed out in Schedule 4, effective the same date, the 7th of June, 1983.

I may be wrong, but I was thinking that because the SADL and the Datacom operations were so close that the assets and whatnot would be somewhat similar. I didn't get all the previous ones written down, but I don't note any that are comparable in the numbers that I did take down, in looking at Note 3 and at Note 4.

HON. A. MACKLING: I wonder if the member can make a note of that and we'll come to that question and we'll deal with it.

There was an expensive number of requirements from information from staff and I would like to get that all available to members before we go into the detailed question, if members would cooperate at this end, and I don't want this informational process to take longer than necessary.

MR. CHAIRMAN: I would suggest to the members, unless they're brief questions for clarification, I indicate their interest in speaking on the speaking order.

Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, we had a request for a summary reconciliation relating to the Saudi riyal 4,134,893 advance to Al Bassam International Telecom, and Don Plunkett has that information.

MR. CHAIRMAN: Mr. Plunkett.

MR. D. PLUNKETT: Mr. Chairman, at the last meeting we undertook to provide the summary of the settlement

of the advance which can be summarized as follows: on June 7, 1983, Al Bassam International Company, Telecom Division, was owed 1,942,444 riyals by the joint venture, resulting from the interim operations from August 15, 1982 through June 6, 1983, which liabilities were settled through offsets against the advance. During the period . . .

MR. CHAIRMAN: Mr. Mackling.

HON. A. MACKLING: Mr. Plunkett, I think you have a statement there that covers that. Could you just table it? Are you reading from the statement?

MR. D. PLUNKETT: The statement doesn't show the details. This is the summary of . . .

HON. A. MACKLING: That's the summary. Is that all there is?

MR. D. PLUNKETT: I can pass that out.

HON. A. MACKLING: All right. You can finish reading it then and pass out the details.

MR. D. PLUNKETT: During the period June 7, 1983 through December 31, 1983, Telecom Division expended an additional 959,600 Saudi riyals on behalf of the joint venture which were again offset against the advance; and during 1984 Telecom made further expenditures in excess of the 1,232,849 Saudi riyals balance outstanding at December 31, 1983 which liabilities fully offset the advance.

HON. A. MACKLING: All right, and then you have a reconciliation statement that you can table?

MR. D. PLUNKETT: Mr. Chairman, I have FAX copies of the accounting system which produced the reconciliation which I'm prepared to hand out. It will be difficult for them.

HON. A. MACKLING: Okay. Can we move on to the next question?

MR. CHAIRMAN: Mr. Penner.

HON. R. PENNER: Mr. Chairman, for clarification, the advance referred to as being offset by the series of payments made by Telecom is the same advance referred to in the document filed last week by Mr. Provencher; the 4,134,893 riyals. That's the advance that by December, 1984 were offset by Telecom payouts.

MR. D. PLUNKETT: That's correct, Mr. Chairman.

MR. G. HOLLAND: Mr. Chairman, we have in the past used the term "MTS exposure" and that has been translated by some into loss. We have prepared a more precise definition of terms which we can either read into the record or distribute copies at a later date, whichever the committee wishes.

MR. CHAIRMAN: Item No. 6.

MR. G. HOLLAND: Last meeting we distributed background papers on the MTX-Cezar Industries Ltd. business relationship and Grassroots. We wanted to again ask your guidance, Mr. Chairman, as to whether those should be read into the record or noted as having been presented to the committee.

HON. A. MACKLING: I'd just like to point out that there were a number of questions and the statements answer those questions and provide further information. Now rather than take the time in committee to read them into the record, can we distribute them and put them in the record? Okay.

MR. CHAIRMAN: That's agreeable to the committee.

MR. G. HOLLAND: Mr. Chairman, last meeting Mr. Dolin had asked for some information on briefing materials used for MTS-MTX personnel going to Saudi and John McGuire has that information.

MR. J. MCGUIRE: Mr. Chairman, perhaps what I could do is just confirm Mr. Dolin's request. I believe he asked me for two things; one was the material that MTX used prior to 1984. We have that. I'm afraid it came out of an old file and unfortunately there are two paragraphs that had been highlighted that are fairly hard to read, but I can table that.

We have also received the - I believe your second question was - what material is MTS using on the Bell project or Bell Canada using on that project when the MTS employees go over. I have both of those if you wish.

MR. CHAIRMAN: Okay, they're tabled. We will table those documents.

MR. G. HOLLAND: Mr. Chairman, there were questions regarding Theresa Aysan's employment at MTS: When was the position previously posted?; Was there an external competition? Who authorized her employment? Was there a hiring freeze at the time Mrs. Aysan was hired? Was it an existing position and how long was it vacant?

It is the general practise of MTS to post vacant positions internally for competition by MTS employees. When it is considered unlikely that internal resources will be available to fill a vacant position, the vacancy is advertised externally and posted internally.

In September, 1985, MTS ran ads in The Winnipeg Free Press, The Winnipeg Sun and The Globe and Mail. Of 38 applications, no applicants were considered qualified for the available positions. The senior analyst position was posted internally in October, 1985 and two candidates qualified, both of whom were appointed to vacant positions. Since the senior analyst positions had been posted internally and advertised externally on a number of occasions, it was demonstrated that internal candidates were not available and qualified external candidates were in scarce supply.

Mrs. Aysan had successfully completed a previous term employment position with MTS and was considered suitable for reemployment. Accordingly, when she became available for one of the senior analyst vacancies, she was hired in February, 1986. This was

an existing position which had been vacant since December, 1985. Mr. Joe Dobrovolny, who was in the Corporate Information Systems Department at that time, authorized Mrs. Aysan's employment. There was no hiring freeze at the time.

And I might say there was a precedent in November '85 when we similarly hired someone from outside who had the necessary skills.

There was a question: was MTX aware that Mitel had discontinued credit to Al Bassam International in early 1982? And Maurice Provencher has that information.

MR. M. PROVENCHER: Mr. Chairman, MTX is not aware of Mitel discontinued credit to Al Bassam International in early 1982.

MR. G. HOLLAND: There was a question: Was or is it necessary for the Chairman and CEO of SADL to be Saudi citizens to obtain the certificate of registration? If so, how has SADL functioned without a CEO since December 4, 1984? And Maurice Provencher has that information.

MR. M. PROVENCHER: Mr. Chairman, it was not necessary that the Chairman of the Board and the Chief Executive Officer for SADL be Saudi citizens in order to obtain the commercial registration of SADL.

Sheik Abdullah Al Bassam was appointed Chairman of the Board by the shareholders of SADL. The appointment of the CEO and General Manager are by unanimous vote of the SADL Board, as defined in Article 17, sections 1 and 2 of the SADL Articles of Association.

Article 17(4) of the SADL Articles of Association states that the exact duration of functions and authority between the General Manager and the Chief Executive shall be determined by the Board of Directors.

MR. G. HOLLAND: There was a question, Mr. Chairman, regarding the Telecom Canada retainer of Coopers and Lybrand and I've confirmed this morning with the Vice-President of Administration of Telecom Canada that my answers last meeting were correct. This was a management decision; the contract did not go to the board and there are no plans at present to use Coopers and Lybrand to a further extent on this project.

Mr. Chairman, there were also questions about Mike Aysan's visits to Winnipeg and I don't know whether Mike's prepared to answer those or . . .

MR. CHAIRMAN: Mr. Aysan.

MR. M. AYSAN: Mr. Chairman, this committee has requested that I indicate when I may have met with Mr. Holland during 1983. I did meet once with Mr. Holland in August of 1983 in London, England, and Mr. Chairman, also Hon. Al Mackling, Minister responsible for Manitoba Telephone Systems has requested that I provide this committee with a complete record of all my exit and re-entry data for the period of my assignment in Saudi Arabia. All of the pertinent visa information and my passport is written in Arabic, it refers to dates in the Hitterite calendar, which is in use in the Kingdom of Saudi Arabia, the Hitterite calendar. I'm therefore having this information

translated into English, reference the Gregorian calendar dates, and I will provide a written transcript as soon as all data is verified.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Can I just ask Mr. Aysan for clarification on an answer he gave last Thursday. I've got the unofficial transcript so it may have you quoted wrong but, Mr. Aysan, you're saying in response to some questions: "I just received the translation of my passport, which includes all my exit - re-entry visas, and I'm going through it to reconstruct the dates and locations." I follow from that last Thursday you had the information that you say today you don't have, and that you'll provide it at a later date.

MR. M. AYSAN: Mr. Chairman, the translation that I received had a number of calendar conversion errors in it. As an example, it shows an exit - re-entry date for December, 1986, which hasn't occurred yet. We are working through it, trying to get it compiled. I'm working with the data, and I will provide a full transcript as soon as we have an accurate listing of all the dates.

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, there was a question as to why locks were changed at the Empress and the Trizec Buildings. Bernie Toews of the MTS legal department has that information.

HON. A. MACKLING: If it's a lengthy answer, perhaps we can table it.

MR. G. HOLLAND: No.

HON. A. MACKLING: It's not a lengthy answer?

MR. CHAIRMAN: Mr. Toews.

MR. B. TOEWS: The questions were asked regarding the changing of the locks, both at the MTS Building on Empress Street and the offices at the Trizec Building. I'll deal with the Empress Street first.

The Rekeying Program at the MTS Building at 489 Empress Street was part of the overall security program designed for the Empress Street Building. On March 4, 1986, the security group of MTS issued a notice to employees located at Empress Street that the Rekeying Program was planned for the period March 24 to March 28, 1986. Because of delays, most of the installation, 95 percent, took place between April 1 and April 21, 1986. There was a total of 319 exterior and interior doors, including washrooms, at 489 Empress Street. Two hundred and ninety-two doors are equipped with locking hardware.

New keys were issued to the occupants of these offices and other authorized personnel. A master key is under control by the building management personnel. Keys are coded and stamped, "Do not duplicate." MTS purchased a restricted keyway for all of its buildings in the Province of Manitoba. The overall building security program for MTS was commenced seven years ago, and buildings are being done on a security priority basis.

The cost for rekeying, supply of cylinders, supply of hardware where required, supply of keys, and involved labour amounted to \$9,905.00. Generally, the rekeying was carried out by the changing of the cylinder within the lock.

Dealing with the 12th floor Trizec Building, as a result of the announcement of the RCMP investigation by the Minister on August 12, 1986, the security department at MTS was instructed to take all necessary action to ensure that all records of MTS and MTX pertaining in any way to the criminal allegations be preserved and available to the proper authorities. As part of the preservation of these records, the MTS security manager authorized the changing of locks on six offices located on the 12th floor of the Trizec Building, 360 Main Street, Winnipeg.

The changeover of these locks took place on August 13 and 14, 1986. Only two keys are issued for each office, one to the occupant of the office and the other to an MTS security officer located on the 12th floor, Trizec Building.

Material costs for changing of locks amounted to \$122.60, and labour costs were approximately \$50.00.

MR. CHAIRMAN: Mr. Mackling.

HON. A. MACKLING: I take it, Mr. Holland, those were all of the outstanding questions, with the exception that there are some questions in respect to the KLM account, and you have a document that you're expecting to be delivered.

MR. G. HOLLAND: Those would be available later this morning. The information will be provided a little later.

MR. CHAIRMAN: Mr. Filmon.

MR. G. FILMON: I'd like to ask a question for clarification. The report said, MTS security department were instructed to change all the locks in the Trizec Building. Who gave the instructions? I think that was the original question.

MR. CHAIRMAN: Mr. Toews.

MR. B. TOEWS: I believe that the instruction was given to the security department - Don Frame is the security manager - by Mr. Beatty, the general counsel.

HON. A. MACKLING: Mr. Aysan has . . .

MR. CHAIRMAN: Do you have a further question, Mr. Filmon?

MR. G. FILMON: It was immediately after the announcement of the RCMP investigation, is that correct?

MR. B. TOEWS: As a result of the announcement of the RCMP investigation by the Minister on August 12, the security department was then instructed. I believe that was by Mr. Beatty.

HON. A. MACKLING: Mr. Aysan has approached me. He said that he hadn't completed answering fully a question. Mr. Aysan, do you want to fully answer.

MR. CHAIRMAN: Mr. Aysan.

MR. M. AYSAN: Mr. Chairman, relative to when I met with Mr. Holland during 1983, I didn't get an opportunity to finish. In addition to our meeting in London, I did meet with Mr. Holland on December 19, 1983, during my holidays while I was in Winnipeg. That's the holiday, I think, we were referring to at the last hearing. I now have the specific date on that.

HON. A. MACKLING: Mr. Holland, those are all of the outstanding areas with the exception of some questions in respect to the KLM account for which you say a document will be coming later on this morning.

MR. CHAIRMAN: On that point, Mr. Filmon?

MR. G. FILMON: Mr. Chairman, yes, just on that point, I'm just reviewing quickly the questions that I placed on the record at the last hearing, and I note that one of them was: what investigations were done with respect to the financial stability of the partner, Al Bassam International, that we were intending to enter into the joint venture with? Who was responsible for the investigation and satisfying MTS-MTX that our partner's financial stability was sound, and that any matters of credit or other concerns to do with that were looked after?

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, I suppose the answer to that would be that the MTX Board would have that responsibility. There was some information. The Al Bassam International organization was on a list provided by the Canadian trade officials to MTX. Of course, subsequently, he was able to meet his investment obligations to the joint undertaking and obtain Letters of Credit, so it seemed that it was a reasonably strong financial partner.

MR. F. FILMON: What we're saying is that there was, per se, no serious investigation done into this financial capability or stability, but rather that we relied on the fact that Al Bassam International was on a list of companies that were in the telecommunications business in Saudi Arabia that were given to us by Foreign Affairs, Canadian Embassy, or whatever?

MR. G. HOLLAND: Mr. Chairman, I would think that reasonable attempts were made to obtain information through bankers, but I don't have first-hand knowledge of that.

MR. G. FILMON: Mr. Chairman, I'd just point out that's essentially the same answer that was given last meeting and I asked for more information on it, so I wonder if we could get that additional information.

MR. G. HOLLAND: We'll study and see if there is any more data or documentation.

MR. CHAIRMAN: Mrs. Carstairs.

MRS. S. CARSTAIRS: Thank you, Mr. Chairman.

I would like, first of all, to apologize to the staff of MTS, because I'm going to jump all over the place, but I didn't get any chance to do it orderly last time.

On August 12, it was stated that an \$8,000 bonus was paid to Mike Aysan. Has any other SADL or MTX employees received a bonus, and is there a clear differentiation between a bonus and a commission?

MR. G. HOLLAND: Mr. Plunkett will respond.

MR. D. PLUNKETT: I believe I was asked, Mr. Chairman, whether there was a clear distinction between a bonus and a commission payment. There is a clear difference. Bonus payments are typically based on a person's performance in meeting objectives, some of which are quantifiable, some of which are not. Mr. Aysan was paid the bonus based on the recommendations of the SADL board on his accomplishments in meeting some of his targets.

Commissions are regularly paid as part of salesmen's contracts in Saudi Arabia and are based on the criteria that Mr. Provencher laid out earlier this morning, and they're based on documentation of achieved orders, delivery of equipment and payment receipts from the client.

MRS. S. CARSTAIRS: Mr. Chairman, was any other employee of MTX or SADL paid a bonus while they were in Saudi Arabia?

MR. D. PLUNKETT: Mr. Chairman, could I have that question repeated please?

MRS. S. CARSTAIRS: Yes, were any other employees of MTX or SADL paid bonuses when they were, in effect, working in Saudi Arabia?

MR. D. PLUNKETT: Yes, Mr. Chairman, there were a number of instances where bonuses were paid. I don't have the information offhand.

However, I might add that as part of every contract for employees that were assigned to Saudi Arabia prior to, I believe, mid-1984, the contract provided for a completion bonus typically in the order of \$3,000 should the employee complete their two or two-and-a-half year assignment.

MRS. S. CARSTAIRS: Would it be possible at sometime in the future for the committee to be presented with a list of employees who were indeed paid bonuses?

MR. D. PLUNKETT: Yes, Mr. Chairman.

MRS. S. CARSTAIRS: Then, through the Chair, can we learn how, in fact, the salaries of MTX employees in Saudi Arabia were structured? How much was proportionately to be salary and how much commission? In other words, what kind of contract did these individuals have when they gave up their employment in Canada and went off to work in Saudi Arabia?

MR. D. PLUNKETT: Mr. Chairman, I can answer that generally.

The policy has been that any MTS employee who was being assigned to Saudi is assigned there at his

base salary that he had while in the employ of MTS. To that is added an uplift of 50 percent which represents payment for the increased working hours and foreign allowance.

In the case of salesmen, they are paid either at the rate of \$20,000 Canadian per year or \$25,000 Canadian per year regardless of what they were earning before and commissions then are paid on top of that based on the criteria mentioned earlier.

In addition, employees assigned to Saudi Arabia are now assigned on the basis of six weeks time off in the Kingdom; two weeks is considered to be vacation and four weeks are to be considered R and R, rest and recreation. For each R and R, the employee is entitled to 3,000 riyals payment and on the vacation he is entitled to one paid return trip to Winnipeg.

MRS. S. CARSTAIRS: Mr. Chairman, were the employees who went to Saudi Arabia expected to become non-resident Canadians or were they encouraged to become non-resident Canadians for the avoidance of tax?

MR. D. PLUNKETT: Mr. Chairman, it is beyond the capability of MTX or MTS to encourage employees to do either. They make their own choice dependent on their own personal situation.

MRS. S. CARSTAIRS: Did Mr. Plunkett, Mr. Chairman, have any knowledge if that, in fact, became standard procedure whereby the employees would sell their homes and their possessions and, in fact, take up non-resident status?

MR. D. PLUNKETT: Sorry I missed the question part of that.

MRS. S. CARSTAIRS: Mr. Chairman, does Mr. Plunkett know if, in fact, that was the general procedure of those who went to work in Saudi Arabia, that they would, in fact, sell their homes and their possessions and, in effect, take up non-resident status in the Kingdom?

MR. D. PLUNKETT: Mr. Chairman, there were a number of employees that took advantage of non-resident status. I don't know the exact number right now, but I can provide the information.

MRS. S. CARSTAIRS: Mr. Chairman, however, what Mr. Plunkett is saying - and I just want some clarification here - there was no encouragement on the part of the Manitoba Telephone System of the advantages of such an arrangement?

MR. D. PLUNKETT: No, Mr. Chairman, in fact, we provide a small allowance to the employees to consult with tax accountants prior to their leaving Winnipeg for Saudi Arabia. It then becomes their choice as to whether they want to go as Canadian residents or non-Canadian residents.

MRS. S. CARSTAIRS: In the accounting statement of the Manitoba Telephone System with the year ending March 31, 1985, I assume that the figures which are given for '84 include the period June 7, 1983 to March 31, 1984. Is that correct?

MR. CHAIRMAN: Mr. Provencher.

MR. M. PROVENCHER: Mr. Chairman, I presume the question relates to SADL and it relates to the year ending December 31, 1984? Transactions have been fully identified in the MTS statements as Note 11 to the statements.

MRS. S. CARSTAIRS: On Page 7 of the testimony on September 4 - and I will read it - "This irrevocable letter of guarantee was issued as security to MTX Telecom Services for the payment of four equal semi-annual drafts drawn on Al Bassam International by MTX Telecom Services, each draft amounting to \$183,019.53 U.S.

Mr. Chairman, I'd like to know why those notes don't show up on the MTX accounting statements.

MR. CHAIRMAN: Mr. Provencher.

MR. M. PROVENCHER: Mr. Chairman, they do show up on the accounting statements. They're shown as a contingent liability and they're indicated in Note 2, 3 or 4 to the MTX Telecom Services Inc. financial statements.

MRS. S. CARSTAIRS: Can we be informed how Mr. Aysan was able to sign a note or a guarantee for \$4 million Saudi riyals, when by his own statements earlier to this committee, he was limited to 50,000 Saudi riyals?

MR. M. PROVENCHER: Mr. Chairman, I think the statement relating to that was the authorization of the disbursement. The authorization of the advance was authorized by the then President of SADL, the signature that I think is being referred to or the signatures on the letter to the bank to draw the bank drafts. That was within the intent of the interim agreement when Tariq Al Bassam established those signing authorities with the bank in Alkhobar.

MRS. S. CARSTAIRS: Mr. Chairman, I still have some difficulty with an employee of MTX signing anything for some 4 million riyals, when in fact his signing authority is 50,000. Is that not a violation of his own authority?

MR. M. PROVENCHER: Mr. Chairman, I think we have to make a very clear distinction between authorization. Authorization gives the authority to a disbursement. Now the authority for that particular disbursement came from the president. The transaction that we do have then are the signing of a letter to the bank releasing those funds, based on an authorization by the president.

MRS. S. CARSTAIRS: Well, in fact the limit on the president or any member of the board, as I read it in the Articles of Agreement, is 500,000 Saudi riyals. How do you reconcile 500,000 with 4 million?

MR. M. PROVENCHER: Mr. Chairman, as I've previously indicated to the committee, the president did have the authority for short term investments and investments in fixed deposits that were approved in the final authorizations at the SADL shareholders founders meeting, and it was consistent with the preliminary

authorizations that were reviewed at the February partners' meeting.

MRS. S. CARSTAIRS: Mr. Chairman, Mr. Provencher said on September 5 that he had not seen Chafe Richeh since December 4. However, we learned also on September 5 that Chafe Richeh was fired on December 1, 1984, and we were told that there didn't seem to be any clear explanation for what the reasons for that firing were.

If Mr. Provencher saw Mr. Richeh some three days later, did he discuss the firing with him in person?

MR. M. PROVENCHER: Mr. Chairman, I saw Mr. Richeh at the preliminary session prior to the board meeting where he tried to appeal to the board to maintain his directorship as a director of the company. No, I did not discuss it with him personally.

MRS. S. CARSTAIRS: Mr. Chairman, in Mr. Richeh's appeal to the board, did Mr. Richeh express the reasons why he felt he had been fired?

MR. M. PROVENCHER: Mr. Chairman, those were private dealings between Mr. Richeh and the chairman. He did not indicate so.

MRS. S. CARSTAIRS: Mr. Chairman, I'd like to deal just briefly with the caning incident. I would like to ask Mr. Aysan or Mr. Provencher if it is true that prayer times are published each day in all local papers in Saudi Arabia?

MR. M. PROVENCHER: To the best of my knowledge, yes.

MRS. S. CARSTAIRS: Is it also true that they are published, not only in Arabic, but in English?

MR. M. PROVENCHER: To the best of my knowledge, yes.

MRS. S. CARSTAIRS: Is the purpose of the English publication so that foreign companies who are doing business will know exactly the times when they are to cease working in Saudi Arabia?

MR. M. PROVENCHER: I can't speak on that as I don't know the intent.

MRS. S. CARSTAIRS: A question to Mr. Holland. In the last five years, I understand that there has been a great deal of consultant work going on at the Manitoba Telephone System.

Can Mr. Holland tell the committee who has been doing this kind of consulting work and of what nature it has been and the cost to the corporation?

MR. G. HOLLAND: Mr. Chairman, the last five years - again I would have to go back and research that - I have reported to the committee that we do have a contract current with SMC WOFAC. It is to work with our staff in systems review and in the Winnipeg area, hopefully with systems improvement, productivity gain

and the cost, if that contract goes to completion, is \$1.2 million.

MRS. S. CARSTAIRS: Is it possible for us to have a more detailed list of the kinds of consulting work that has been done over the years, by whom and its cost?

MR. G. HOLLAND: Yes, Mr. Chairman.

MRS. S. CARSTAIRS: My final question has to do with two contradictory statements, Mr. Chairman.

Mr. Mackling, in the House on September 5, 1986, said, "Madam Speaker, since suspension order has been invoked, MTX has not shipped any equipment to Saudi Arabia." However, at the hearing earlier in that day we were given a piece of information which talked about MTX Telecom Services projects and contracts in progress, SADL and Datacom, which said MTX is honouring purchase orders placed on MTX by Saudi and subsequently placed on North America suppliers, goods will be shipped on a consignment basis, and as payments are received from the Saudi clients, they will be forwarded to Winnipeg.

Can the Minister or, in fact, the distributor of the original projects and contracts in progress explain just what the status of equipment is at the present moment?

MR. CHAIRMAN: The Minister responsible for MTS.

HON. A. MACKLING: Mr. Chairperson, I asked the staff to provide an overview for the committee of work in progress; and the reference in the document that was tabled with respect to Saudi Arabian work in progress is in accordance with my request made at that time.

However, subsequent to that request to them to prepare that indication for the committee, I communicated with Mr. Curtis and made it very clear to him my concern that, while still honouring the obligations to fulfill contractual undertakings wherever they are, that in respect to Saudi Arabia, I did not wish to see or hear of any shipment being made unless I was satisfied that we would be secured for the payment of those goods. I didn't want further shipment to be made there that would be then in inventory and add to the accounts receivables of the joint venture. I have been assured that there have been no shipments subsequent to the suspension order and that there will be no shipments unless or until he and the board and this Minister are satisfied as to the security for payment of those shipments.

MR. DEPUTY CHAIRMAN: Mr. Filmon.

MR. G. FILMON: Thank you, Mr. Chairman.

I want to follow up on the topic of commissions being paid. We're given to understand that commissions were paid to salesmen working over there for MTX; is that the correct understanding?

MR. DEPUTY CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Plunkett will respond.

MR. DEPUTY CHAIRMAN: Mr. Plunkett.

MR. D. PLUNKETT: Mr. Chairman, commissions are paid not only to people who are on assignment from MTX, but also to people who have been hired from other countries.

MR. G. FILMON: So we're now talking about employees of SADL; is that who is being paid commission?

MR. D. PLUNKETT: That is correct, Mr. Chairman.

MR. G. FILMON: My understanding of the terms of reference and the scope of operation of SADL is that it does not sell equipment, that the selling companies are MTX, who sell essentially to one customer, Telecom-Datacom, one of the divisions of Al Bassam International. I note that there's been some change along the way in who was selling the equipment over there and that those wholly-owned subsidiaries of the Sheik were selling directly to customers there. So why would SADL employees be paid sales commissions if SADL doesn't sell any equipment?

MR. D. PLUNKETT: Mr. Chairman, as I explained earlier today when I read in the relationship paper, SADL employees will be selling for both SADL and for Datacom Division. SADL can sell, as indicated in its commercial registration, but it cannot import. So any sales that would be made directly by SADL would be commissionable. The majority of the sales, however, are put through Datacom Division and are commissionable out of that division.

MR. G. FILMON: Who would pay the commission to the employees who are SADL employees, but are selling out of Datacom; who pays them the commission?

MR. D. PLUNKETT: Mr. Chairman, the commissions would be paid by Datacom Division in all likelihood, but would be charged to the appropriate company that the sale was made for.

MR. G. FILMON: So were these employees then jointly on two different payrolls, on SADL's payrolls and on Datacom's payroll, getting paid by either or both of them?

MR. D. PLUNKETT: Mr. Chairman, the employees would be only on the - or currently at least - are only on the SADL payroll. Commissions would be then paid out of SADL as part of their earnings, but will be chargeable to either SADL, if it's a SADL sale, if it's telecommunications as a for instance, or to Datacom through the inter-company management fee of 250,000 a month that was referenced earlier.

MR. G. FILMON: My understanding was that management fee was set regardless of what was happening over there. Was it variable depending on sales that were being made or costs that were being interchanged?

MR. CHAIRMAN: Mr. Plunkett.

MR. D. PLUNKETT: Mr. Chairman, the management fee would relate to the expenses of SADL in the amount

of resources that were used by SADL to support Datacom Division. Any commissions paid for sales of Datacom equipment, as an example, personal computers, would be charged directly to Datacom Division.

MR. G. FILMON: Mr. Plunkett is looking at some additional notes. Does that conclude his answer then?

MR. D. PLUNKETT: At the moment, Mr. Chairman.

MR. G. FILMON: So salesmen who worked for SADL were in fact on commission and they were being paid based on equipment being sold by either SADL or Datacom over in Saudi Arabia.

MR. D. PLUNKETT: That is correct, Mr. Chairman.

MR. G. FILMON: Would any of the management team receive commissions based on equipment sold? For instance, would Mr. Aysan receive commissions based on equipment being sold?

MR. D. PLUNKETT: Mr. Aysan has not, to the best of my knowledge, received any commissions whatsoever for any contracts or sales entered into in Saudi Arabia.

MR. G. FILMON: Mr. Chairman, I wonder if we could have an indication - were there any such things as house accounts on which no commission was paid?

MR. D. PLUNKETT: Mr. Chairman, there would be accounts that would be called national accounts, wherein the sales commissions would be split between salesmen in Alkhobar or in Riyadh for an account that spanned both cities. I'm not aware of any house accounts in which no commission was paid on. I believe that it was generally allocated to one of the salesmen.

MR. G. FILMON: So essentially a commission was paid on all the sales that were being made by SADL or Datacom, by employees who essentially were SADL employees, selling in either of those areas, for either of those companies?

MR. D. PLUNKETT: I believe so, Mr. Chairman.

MR. G. FILMON: So at all times, Mr. Chairman, it was in SADL's interest to be promoting sales of equipment for its own purposes, because whether those sales occurred in Datacom or in SADL, the employees were getting commission on it and presumably it resulted in additional equipment being sent over there by MTX and resulted in the - I think there was a figure quoted - a percentage benefit that accrued to MTX as a result of the volume of sales over there.

MR. D. PLUNKETT: Mr. Chairman, I'm sure the salesmen would be very happy to be selling equipment for either company because if they weren't, they weren't making any money and that's what they are there for. As far as MTX is concerned, the 3 percent only covered our costs, so it did not matter, from an equipment shipment point of view, whether equipment was purchased through us or purchased locally at all.

The benefit that MTX enjoyed - or was to enjoy - was through the profits that were to be earned in Saudi Arabia through the sale and installation of that equipment.

MR. G. FILMON: So MTX's benefits in this whole matter were dependent on the sale and installation of equipment and the profits that accrued to them as a result of that. Presumably, profits would increase in accordance with the volume of sales.

MR. D. PLUNKETT: If you're selling at a profit, Mr. Chairman, you would normally expect to make more money as you sold more volume.

MR. G. FILMON: Earlier today - and I apologize for not having had the opportunity to read it all and I tried to listen carefully to what Mr. Plunkett was saying - but I think earlier today, he indicated that there are, in essence, no separate statements available to us for Datacom and Telecom, our related companies over there through whom we are selling equipment. In fact, our salesmen are actually selling directly through Datacom and getting commissions on it.

How do we know what evidence and information is available to us to ensure that we're getting our share of the profits based on the equipment that's being sold through the related companies wholly owned by the Sheik.

MR. D. PLUNKETT: Mr. Chairman, our interest in Telecom - just for clarification, Telecom Division - we mark that equipment up at a separate markup from what we sell to Datacom Division. We do not benefit directly other than through the provision of equipment with any sales that Telecom makes and, as a consequence, are not entitled to any financial statements from Telecom Division whatsoever.

On the Datacom side, the accounts of SADL are audited by our own auditors, Arthur Andersen and Company, as well as the Saudi auditors, Talal and Company. Additionally, we make periodic reviews of the financial statements prepared by the SADL and Datacom staff to ensure that they are recording transactions in accordance with generally accepted accounting principles.

MR. G. FILMON: So Arthur Andersen, on our behalf, does have access to Datacom's accounts?

MR. D. PLUNKETT: I don't believe I said that, Mr. Chairman. If I did, I meant SADL.

MR. G. FILMON: I thought that's what Mr. Plunkett said. No? - (Interjection) - Oh, he said SADL, all right.

Okay, so we do not have access to Datacom's accounts, neither we nor our auditors, Arthur Andersen. So how do we assure ourselves that we are getting a proper return on the sales that are being made through Datacom?

MR. D. PLUNKETT: Mr. Chairman, if I can just reread the paragraph: "In order to facilitate accounting and control, the business plans and operating results of the Datacom Division in SADL have been reported to

the parties on a consolidated basis in order that the results of the complete joint venture operation would be readily apparent to the parties. However, by reason of Datacom Division existing in legal structure of Al Bassam International Company, the auditors have been required by law to prepare and certify audit reports on SADL as a separate entity and on Datacom Division as a division consolidated with the entire operation of Al Bassam International Company."

MR. G. FILMON: Required by law, is that by Saudi law? Are we talking in terms of the Datacom results being transmitted to us after audit by the Al Bassam International's auditor?

MR. D. PLUNKETT: Mr. Chairman, the first question was the applicable law. The applicable law is Saudi law.

There are two separate companies there as mentioned previously; SADL which has its own commercial registration, No. 9464; and Al Bassam International Company which has its own commercial registration, No. 4010.

The SADL auditors audit their own set of financial statements and the Al Bassam International Company auditors audit only Al Bassam International. However, for periodic reporting purposes, the staff prepare for us and for our review and for the SADL Board review consolidated statements which would include the SADL accounts and the Datacom Division accounts operating separately from Telecom.

MR. G. FILMON: Whose staff are doing this?

MR. D. PLUNKETT: Mr. Chairman, the SADL staff are doing it.

MR. G. FILMON: So SADL staff do have access to Datacom's financial records?

MR. D. PLUNKETT: That's correct, Mr. Chairman.

MR. G. FILMON: But do our auditors have access to Datacom's records?

MR. D. PLUNKETT: Mr. Chairman, I would think only as required to satisfy themselves as to the SADL records and assets. Mr. Chairman, they may also have access to satisfy themselves as to the collectibility of the MTX accounts receivable from Datacom Division.

MR. G. FILMON: In the course of our staff having access to those records, that was when Mr. Provencher found the evidence of the one kickback that was in the records of Datacom. Am I correct in saying that?

MR. CHAIRMAN: Mr. Provencher.

MR. M. PROVENCHER: That's correct, Mr. Chairman.

MR. G. FILMON: And that was back in 1985, was it?

MR. M. PROVENCHER: Mr. Chairman, that was October '85.

MR. G. FILMON: But our auditors, Arthur Andersen, have really never delved into any of the financial

information and the records of Datacom to your knowledge.

MR. D. PLUNKETT: No, Mr. Chairman, not to my knowledge.

MR. G. FILMON: And it's questionable whether they have any legal right to access to that at this point. Am I correct in assuming that?

MR. D. PLUNKETT: That's correct, Mr. Chairman, as I understand it.

MR. G. FILMON: Now who are our major receivables in SADL from? Are they from Telecom or Datacom or both?

MR. D. PLUNKETT: At this point in time, Mr. Chairman, the bulk of the receivables would be from Datacom Division.

MR. G. FILMON: Can you just refresh me as to what our arrangements are with respect to sale of equipment from MTX to Telecom? How do we make a profit on that?

MR. D. PLUNKETT: Mr. Chairman, we will provide equipment to Telecom on the basis of cost plus usually anywhere between 8 percent and 15 percent, depending on the item.

MR. G. FILMON: Getting back to the relationship with Datacom, as I understand it, our people are in effect selling equipment through Datacom, that is SADL. When I say "ours" I mean they are employees of SADL, our 50-50 partnership, and they are selling equipment directly out of SADL and out of Datacom and it's in their interest because they make a commission on it and it's in our interest because we, as 50 percent partners, make our returns based on the profits on the sale of that equipment. Yet, if indeed any activity that we wouldn't normally condone, such as kickbacks or illegal commissions are being paid in order to facilitate the sale of that equipment, we wouldn't have any way of having knowledge of that or we wouldn't have direct access to be able to ascertain whether or not that's happening, other than by chance as occurred the one time that Mr. Provencher found it.

MR. M. PROVENCHER: Mr. Chairman, the accounts of Datacom are audited by the Saudi auditor and he has an obligation to bring any unusual circumstances to the attention of the shareholders for Al Bassam, which is Sheik Abdullah. Also the staff did advise us at the - I believe I identified it was at the December 1984 partners' meeting that they were aware of an unwarranted transaction which they had come across through their normal course of duties in relationship to providing those technical management and administrative services to Datacom.

MR. G. FILMON: Did the auditors ever bring to the attention of the Sheik, to your knowledge, that they had found an unwarranted payment or a kickback?

MR. M. PROVENCHER: No, they have not brought anything to my attention in relation to those payments, neither Arthur Andersen nor Talil.

MR. G. FILMON: So they didn't bring it to your attention, yet you found evidence of it and there was one that was talked about at the partners' meeting because it resulted in the dismissal of Chafe Abou Richeh and yet the auditors at no time brought that forward.

MR. M. PROVENCHER: Mr. Chairman, it's in the Datacom Division. I can't speak for the scope of the audit. The scope of the audit is up to the auditors. The degree of scope is as agreed to between Sheik Abdullah and the auditors. They form their opinion as to generally accepted accounting principles. It's their opinion and it's their scope.

MR. G. FILMON: I find it passing strange, Mr. Chairman, that presumably we're relying totally on these auditors to have brought forward this information. They did not. We have information from Mr. Provencher that he and board members were aware of two kickbacks and that the auditors responsible had never brought them forward, that they were brought forward by other means of investigation. Yet, we're relying upon them and their ability to find these things as our means of keeping the company straight.

MR. M. PROVENCHER: Mr. Chairman, unfortunately I didn't hear the question. I must apologize for that.

MR. G. FILMON: It wasn't a question, it was a statement.

HON. A. MACKLING: Would you agree?

MR. G. FILMON: No, I'm not asking Mr. Provencher to agree. I'm asking him to correct me if he disagrees with the statement that he had earlier indicated that basically if there were kickbacks being paid, that we were relying on the auditors to delve into it and find them out. Yet we're aware and presumably the board members of SADL and MTX are aware of two instances that were brought forward by two unrelated incidents, that were evidence of kickback, one that Mr. Provencher found and the other that resulted in the firing of Chafe Abou Richeh, and neither of those were found by auditors' investigations.

MR. M. PROVENCHER: Mr. Chairman, the auditor does report to Sheik Abdullah. He does commission them. We have not been privileged and have not received the auditor's report, nor their report on internal control. That is privileged information to Sheik Abdullah and, also, I guess the auditors did not review all transactions or test the transactions and we're not privileged as to what they reported. We have not received any information from the Chairman of the SADL Board in relation to any unwarranted payments that have been reported to him by the auditors.

MR. G. FILMON: I must say that I must express grave concerns that if Arthur Andersen, because they don't test all transactions and don't delve into all of the operations, did not find a kickback, if the Sheik's auditing firm did not identify a kickback, I express grave concerns that Coopers and Lybrand obviously are going

to be restricted and limited in their ability to go into all of these transactions in the Sheik's company to turn up the concerns about kickbacks, or to find evidence for or against those allegations.

One other thing I just want to ask Mr. Plunkett. He has indicated that SADL does indeed sell equipment and it had earlier been our impression that SADL did not sell equipment. Has there been a change in their terms of reference or their scope of operations over there?

MR. D. PLUNKETT: No, Mr. Chairman, there hasn't been a change. I believe the question came up with respect to the Series 1 computers which were subsequently returned to Canada, and the question related to, does the Sheik share in the loss.

Those computers were being sold out of SADL at the time. Those are systems that are sold with their basic operating software and then software packages are added to them.

The sales would have been made out of SADL, but the equipment was shipped to the Kingdom and transferred to SADL by Datacom Division.

MR. G. FILMON: Actually, the question comes up in relation to a statement made to this committee on August 21, 1986 by Mr. Holland and in a long report on a number of questions he says, and I'll quote - it's Pages 166-167 of Hansard - "SADL does not sell computer equipment in Saudi Arabia. Purchases are made by Datacom in Saudi and are made either through the Saudi Arabian distributor of IBM equipment or directly from IBM in Paris and, therefore, Datacom pays the European price for this equipment while MTS pays the North American prices."

MR. D. PLUNKETT: Mr. Chairman, that's a different question. The question, as I recall, was related to personal computers that were purchased through IBM either in Saudi or through IBM in Paris. The computers that I am referring to were purchased from North America when Datacom was first established and shipped over there at that time. SADL does not sell personal computers in Saudi Arabia.

MR. G. FILMON: It doesn't sell personal computers, but it sells other computer equipment. That statement, as I read it, you can understand why I would be misled by it, because it makes an unequivocal statement that SADL does not sell computer equipment.

Quite frankly, a variety of different discussions have led to that conclusion in the past and I'm glad to finally have it clarified, but I question why in a number of answers that we were led into that stream of thinking?

I wonder if you could also clarify, and perhaps Mr. Holland could indicate, we have a story that came forward yesterday with respect to allegations of kickbacks having been raised to the Provincial Auditor, Mr. Ziprick, in December of 1984. I know, having spoken personally last evening to Mr. Ziprick, that the information contained in this morning's story is accurate with respect to the fact that he was given a number of different allegations and did investigate them. He apparently transmitted all of the knowledge of the allegations to Mr. Miller, then chairman of the board,

who, it's his understanding, transmitted that directly to the Minister responsible, Mr. Uskiw, at that time.

The decision was made that Arthur Andersen would look fully into the allegations, among which were the non-availability of accounting records with regard to SADL and the doubtful collectibility of accounts in Saudi Arabia and allegations of kickback.

I wonder if Mr. Holland was informed of the allegations and the Auditor's concern that they be fully investigated at that time in December of 1984.

MR. G. HOLLAND: Mr. Chairman, I have no recollection at all of alleged kickbacks. I was aware of the ongoing concern for up-to-date accounts and, of course, I was aware that our internal audit staff and our external auditor, Arthur Andersen, had been made fully available to work with the Provincial Auditor on the accounting problems. But I would suggest that the Provincial Auditor likely would have the most complete records of that time.

MR. G. FILMON: Mr. Chairman, at no time did either the Minister responsible or the Chairman of the Board, Mr. Miller, share with Mr. Holland the allegation that was made with respect to kickbacks?

MR. G. HOLLAND: I have no recollection of that having been raised. As I say, I knew that Mr. Miller had met with the Provincial Auditor and I assumed that it had to do with, as I said earlier, the problem of up-to-date accounts.

MR. G. FILMON: I wonder if we could indicate who looked after the legal documentation in setting forth all of the legal documents with respect to the partnership in 1982-83 all of those things that were tabled today by Mr. Plunkett. Presumably, where as a result of the initial board of directors, the interim board being set up which had three people each from Sheik Al Bassam Company and three people from MTS-MTX, who was looking after the legal documentation on all of those things that were agreed to between the partners?

MR. G. HOLLAND: Perhaps Mr. McGuire can provide that information.

MR. CHAIRMAN: Mr. McGuire.

MR. J. MCGUIRE: Mr. Chairman, I was representing the MTX Telecomm Services Inc.

MR. G. FILMON: So all of the documents that were tabled today were as a result of, or were approved, in a legal sense, by Mr. McGuire?

MR. J. MCGUIRE: The documents were approved, Mr. Chairman, by the MTX board. They were submitted to the board by myself.

MR. G. FILMON: They were submitted for approval by Mr. McGuire to the board then?

MR. J. MCGUIRE: That is correct.

MR. G. FILMON: Regarding the question of Datacom having been set up initially as the company that was

intended to be the 50-50 partnership and then certain things were learned that caused the partners to decide to keep Datacom as a separate division of Al Bassam International and form a new 50-50 partnership known as SADL, when did the partners or when did the MTX representatives first learn that they were going to have to keep Datacom in existence as an arm of Sheik Al Bassam's companies as well as an operating hand-in-glove with SADL?

MR. M. PROVENCHER: I believe we first learned of that at the partners' meeting in February, 1983.

MR. G. FILMON: What were the principal reasons why this had to remain as such? Why do we have to keep Datacom in the Sheik's operation when we were setting up SADL, which was the original intent of the 50-50 partnership?

MR. M. PROVENCHER: Because SADL could not trade.

MR. G. FILMON: When we say he could not trade, what's meant by that?

MR. M. PROVENCHER: It means direct selling to customers without any value added or commissioning.

MR. G. FILMON: But as I understand it, we are doing direct selling now.

MR. M. PROVENCHER: Mr. Chairman, that is being done through Datacom, a division of Al Bassam International.

MR. G. FILMON: But SADL is selling equipment over there? I think I was just told that a few minutes ago.

MR. M. PROVENCHER: But it relates to projects where there is commissioning and value added, which are in complete accordance with the Articles of Association objects.

MR. G. FILMON: I wonder if Mr. Provencher could explain the difference to me.

MR. M. PROVENCHER: Basically, trading in my definition, is where you don't add value, you don't install. It's similar to you going into a retail store to buy a personal computer, that's trading; but if you take that personal computer and add a modem of network to it, then that's commissioning and value-added and that's the differentiation, the way we see it.

MR. G. FILMON: So, SADL can do commissioning and value-added work, but it can't do direct trading, just direct retail sales with no value added?

MR. M. PROVENCHER: SADL can do commissioning and anything relating to where they add value to a product and can sell on that basis.

MR. G. FILMON: Okay, I think I understand that.

So Datacom is doing the direct selling with no value added, and SADL is doing the installation, technical

engineering support, all of that value-added type of installation of systems; is that right?

MR. M. PROVENCHER: That's correct, Mr. Chairman, as identified by Mr. Plunkett, and that's consistent with the terms of the Technical Marketing and Support Agreement.

MR. G. FILMON: While Mr. McGuire is here, I just want to ask what the concern was in 1983 when we got the Envoy message about the flogging incident. Two months after we had obtained the Saudi registry, there was a concern expressed about losing our Saudi registry. How could that have happened?

MR. J. MCGUIRE: Mr. Chairman, to the best of my ability, as I mentioned to Mr. Filmon on Thursday last, the commercial registration for SADL was obtained on June 7, 1983 and to the best of my knowledge at the time I made the statement to Mr. Filmon - and I've since confirmed it - that was the Saudi Arabian equivalent of getting our incorporation papers for a company here in Manitoba.

I can only presume what Mr. Provencher meant by that particular paragraph and perhaps I should leave it to him. But to the best of my knowledge, there would have to be a process of law to revoke - if I can call it that - the charter or the commercial registration of SADL, subsequent to its issue, that is.

MR. G. FILMON: What was Mr. Provencher's concern about the loss of Saudi registry when he sent that Envoy to Mr. Holland?

MR. M. PROVENCHER: That was primarily a concern that had been expressed by a partner; the basis for it, I'm not sure.

MR. G. FILMON: I note as well from today's information by Mr. Plunkett that we were entitled to and were supposed to receive monthly financial statements and balance sheets on the operation of SADL and the operation of Datacom, I think. I think that's part of the report and again I'm operating from memory not being able to put my finger on the report; is that correct?

MR. D. PLUNKETT: Yes, Mr. Chairman, that is correct. We have received periodic reports since the inception of SADL.

MR. G. FILMON: How could it be that in December of 1984 we were faced with a situation where Arthur Andersen did not have sufficient information to pass judgment on the SADL operation? As I understand it from my discussion with Mr. Ziprick, for instance, that there just simply was an absence of adequate documentation and record-keeping upon which to make an audit judgment at this point in time and yet from the time of our inception of our agreement way back in '82, we were supposed to be receiving monthly financial statements and a balance sheet.

Who wasn't asking for this or demanding that this record-keeping be kept up?

MR. D. PLUNKETT: Mr. Chairman, SADL and Datacom, since their inception, have had significant problems in

preparing timely financial reports. The problems relate to the interim period between when Mrs. Aysan was preparing the statements, and at that time they were timely, to when the SADL staff took over the preparation of those documents. It involved the conversion of the accounting systems from the original system that it ran on a personal computer to the Series 1 system that it was converted to during 1984 and most recently to the newer system.

I can't speak for what Mr. Ziprick said. I suggest that again the Provincial Auditor be contacted on that. Arthur Andersen did prepare an audit opinion that took into account the operations in Saudi Arabia and in MTX in Winnipeg. I believe that it may have been some months late, but the financial information was derived and it was derived out of accounting systems.

MR. G. FILMON: My understanding is that it was some months late, perhaps even as much as six months, because the information wasn't available to them and that it had to be eventually reconstructed or brought up to acceptable standards in order for them to be able to deal with it.

MR. D. PLUNKETT: Mr. Chairman, the financial information or financial reports were never derived. The correct term would be brought up-to-date. In terms of backlog that the accountants had, that was created due to staff shortages and to conversion of systems from one to another.

MR. G. FILMON: Was that the period of time when Mrs. Aysan was presumably keeping the books?

MR. D. PLUNKETT: Mr. Chairman, when Mrs. Aysan was keeping the books, they were always up-to-date.

MR. G. FILMON: I'll leave it at that, Mr. Chairman, for now.

HON. R. PENNER: Just a few questions and then perhaps a comment. Just for clarification to Mr. Provencher, Mr. Filmon in his questioning a few moments ago, referred to two kickbacks. My recollection of the questioning by Mr. Dolin last Thursday was that there was one kickback that Mr. Provencher had identified, one unauthorized payment in the Datacom operation, and that the other referred to one of the Sheik's own companies, Al Bassam International or Al Bassam Telecom; is that right?

MR. M. PROVENCHER: Mr. Chairman, as I've previously identified to the committee, the transaction that I filed in October '85, I was advised that it related to the same transaction that we were advised of in December '84.

On a further question he asked me, is it one or two payments and I said I was advised that it was one and the same. But I'm not sure if it's one payment or if it's two payments and only subsequent investigation can prove that. I have no direct knowledge as to whether it's one or two, but I was advised it was one and the same.

HON. R. PENNER: So what Mr. Provencher is sure of is one payment that Mr. Provencher, through you Mr.

Chairman, came across on his own investigation. When was it that Mr. Provencher came across that one known kickback?

MR. M. PROVENCHER: Mr. Chairman, I basically discovered the unwarranted payment while I was in Saudi Arabia prior to the October 1985 SADL Board Meeting and it was in the September 1985 accounts payable file for Datacom.

HON. R. PENNER: So in fact, it was in the records; you found it in the record?

MR. M. PROVENCHER: Yes, as I have previously identified, it was a plain piece of white paper that identified there was an amount of \$43,241 - and I questioned that transaction at that point and found out that it was an unauthorized payment.

HON. R. PENNER: Just on the question of the access to Datacom records about which Mr. Filmon asked some questions, it was suggested to you and agreed by you that it's questionable if SADL has a legal right to access Datacom records. I believe your answer was affirmative to that.

MR. M. PROVENCHER: That's correct, Mr. Chairman, but we do believe that we have a right under the partnership agreement to access those records and that our partner will honour those arrangements.

HON. R. PENNER: That was my further question. Has any difficulty been encountered to your knowledge to this point in time in accessing the Datacom records by SADL staff?

MR. M. PROVENCHER: As Mr. Plunkett this morning has explained, SADL staff do maintain those records on behalf of Datacom under the intercompany agreement. I personally have not had any problems accessing those records when required.

HON. R. PENNER: I refer to Page 8 of the document tabled this morning and just to corroborate or verify if I'm dealing with the same information, where it is stated the control of purchases, sales, banking and administration in Datacom Division rested exclusively with SADL through the provision of its staff under the terms of the management agreement of June 7, 1983, the results of that operation being an operation devoted exclusively to the business of the joint venture, would be known to and controlled by SADL on a continuous day-to-day basis, that is correct?

MR. M. PROVENCHER: Yes, Mr. Chairman.

HON. R. PENNER: One final question on that. The references made in your previous answers to myself and in that particular passage which I just read, to SADL staff, would SADI staff who we're now told actually operate the Datacom Division pursuant to a management agreement, who would they be? Would they be Saudi nationals or would they be MTX employees or would it be some of each?

MR. M. PROVENCHER: In relation to the financial records, it's an Al Bassam appointment, and it's the

financial administrator, Mr. Keschishian. In relation to technical support, it would be primarily the MTS staff that's being seconded to Saudi Arabia. Sales staff, it would be whatever sales staff is there from the joint venture, either from Canada or Britain or other countries where that staff has been obtained. There is, reporting to Mr. Keschishian, some accounting staff that was recruited from the Philippines.

HON. R. PENNER: But these were SADL staff running the Datacom Division under a management agreement?

MR. M. PROVENCHER: Initially, Mr. Chairman, some were in Datacom and some were in SADL. They were eventually all transferred to SADL. There are still a few in Datacom. I don't have the information exactly on how many or who they are, but over time we're tried to transfer the employee sponsorship to SADL and then provide those services under the Management, Technical, and Support Agreement.

HON. R. PENNER: Mr. Chairperson, reference was made in Mr. Filmon's final comments, or close to his final comments, to a press report today which indicates that allegations were made to the Provincial Auditor in December of 1984, which fairly well coincides with the date that Mr. Provencher has been referring to; that is, the date on the piece of paper that he discovered later in 1985. That appears to be the earliest reference we have on record to this point of an authorized payment, sometimes referred to as a kickback, sometimes referred to as *bacsheish*.

I just raise that point because on Thursday last, in his comments to the committee, Mr. Orchard referred to an August 24, 1983 meeting of this committee and I'm now quoting from the draft Hansard, and Hansard will show whether I'm correct or not, that both Mr. Filmon and myself posed questions to you, Mr. Holland, about the existence of kickbacks or unusual payments made to secure business in Saudi Arabia, to which Mr. Holland, you might recall, you answered no. Mr. Holland, in reference to that, then said, "I wasn't aware of any such practices."

Further, Tuesday, the 2nd of September, Mr. Orchard came back to the same theme and went on to say, referring to the same committee meeting, "My leader and I both asked in 1983, were there any kickbacks, were there any allegations of finder fees and illegal commissions." Indeed in the subsequent passage of Thursday's meeting, again Mr. Orchard referred to the question and this time he put it more firmly. "I believe that it was in July 1983 that Mr. Filmon and I posed the questions to you of kickbacks, asking Mr. Holland these questions.

Well, Mr. Chairperson, I went and got the record of that committee meeting and I want to put it on the record that no such question was asked with respect to kickbacks, with respect to illegal commissions. We now know that the first knowledge that anyone had, including the Provincial Auditor, of such transaction - at the moment we know of one, there may be more - was in December of 1984, but I have 134 of Hansard, Thursday, the 14th of July, 1983 and there was one question and one question only posed by Mr. Orchard. It didn't refer to illegal commissions; it didn't refer to

kickbacks; it referred to one thing; it referred to the question of whether or not there were any finder's fees. Well, finder's fees, in our legal system, are not illegal; they're legal, but there was no reference to illegal transactions, illegal commissions, kickbacks, *bacsheish*. And yet, in the questioning of Mr. Holland in relation to the discussion between Mr. Holland and Mr. Aysan in London in August, 1983, when Mr. Orchard raised his eyebrows in incredulous surprise that somehow or other, why didn't you discuss kickbacks with Mr. Aysan, it was suggested that there had been plenty of warning given to Mr. Holland in August of 1983 at this committee. The record simply does not bear that out and I think I would be not doing my duty if I didn't, having looked at the record, put that on the record.

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

MR. M. DOLIN: Would . . . yield for a second? I just have one question following the line of questioning, to get some clarification.

A MEMBER: Is it agreeable to extend the committee again today as it was last Thursday?

HON. R. PENNER: No, I'm through. Mr. Orchard had asked me earlier how long I intended to take. I said 10 minutes; it's been 8 minutes. That's all I wanted to take to clarify that whole sequence of questions because I think an unfair impression had been left that Mr. Holland had certain information that he ought to have been discussing with Mr. Aysan, when nothing on the record or in the evidence that has been given to this committee in this current row suggests that anyone could have had that information prior to December 1984.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman . . .

MR. CHAIRMAN: Mr. Mackling has a few comments.

HON. A. MACKLING: Earlier, Mr. Chairman, I indicated -(Interjection)- well, I thought that Mr. Orchard would like to have this information before he embarks on his questions. I had indicated that . . .

MR. D. ORCHARD: On a point of order. If we don't get through at 12:30, would it be the will of the committee, as we did last Thursday, to extend the adjournment of this committee to 1:00 or 1:30, if necessary.

HON. A. MACKLING: I have no problem with one o'clock.

MR. CHAIRMAN: Is one o'clock agreeable to members of the committee? (Agreed) Then we will proceed until one o'clock.

Mr. Mackling.

HON. A. MACKLING: Mr. Chairperson, earlier I had indicated that I called upon Mr. Holland, and through Mr. Holland, various members of staff to answer

questions that have arisen either at the committee or in the House. There was an area of questions in respect to a KLM account that had not been answered, and I indicated that answer would be forthcoming later on. The Chairperson of the board has a response; I would like her to give that response, and then Mr. Orchard and others will have hopefully all of the answers placed before the committee.

MR. CHAIRMAN: Ms. Edmonds.

MS. J. EDMONDS: Mr. Chairman, in view of the questions that have been raised on behalf of the board, I asked legal counsel to inquire into the matters and this is the report I have.

The first question was: Has a special account been opened at MTX as a result of its dealings with KLM?

In or about June, 1983, MTX selected KLM Airlines as carrier for the air freight it expected to generate in connection with its recently commenced joint venture project in Saudi Arabia.

As part of its proposal and, arising out of negotiations, KLM offered to give MTX a percentage credit on the dollar volume of all freight and passenger traffic placed by MTX with KLM.

KLM's proposal was that it would maintain, in KLM offices, a record of the credit so earned and that MTX would be entitled to require KLM to charge against those credits any accounts incurred and invoiced to MTX by KLM in the usual course of business for air passenger travel, booked directly by MTX with KLM; that is, where services of a travel agent were not utilized.

KLM has maintained this credit account since July 1983. MTX executive staff adopted a procedure whereby MTX's traffic manager, on receipt of an invoice at Winnipeg from KLM for passenger air travel, would ascertain that they were properly chargeable to MTX for trips on MTX business; would determine that the credit account had sufficient funds to cover the amount of the invoice; and would obtain the approval of the MTX president that the traffic manager be authorized to request KLM's Winnipeg office to charge the amount of the invoice against the credit account.

The level of credits was monitored by the traffic manager on the basis of MTX's financial accounts for passenger and freight traffic charges, invoiced to and paid by MTX in the usual course of business.

All charges and payments for freight and passenger traffic are recorded in the financial records of MTX, but the volume of credit allowance account has been maintained by KLM - not by MTX - in accordance with the conditions stipulated by KLM when the credit allowance was offered.

The operation of the credit account by KLM, as outlined above, was the basis upon which KLM made its traffic proposal to MTX in June 1983, and was the only way in which the benefit of a volume credit allowance could accrue to MTX. Other airlines made similar proposals to MTX at about that time.

Second question: Were there contracts awarded to KLM and Danzas freight forwarders for passenger and freight through open public tender?

At the time MTX commenced freight shipments to Saudi Arabia, it had requested information from other corporations as to who were recommended freight

forwarders. Danzas was the recommended choice. After use of Danzas for several shipments, two other local freight forwarders requested the MTX business. These companies were tried, but the recipients in Saudi Arabia advised that Danzas was more effective and timely in expediting shipments. Accordingly, MTX were back to using Danzas.

During 1986, Datacom and MTX jointly undertook a review of the freight forwarding operations. Several companies, including Danzas, were asked to prepare proposals. The final report, which was accepted by the SADL board, recommended that Danzas be retained as the freight forwarder.

Although the freight forwarder usually chooses the airline to ship the goods, MTX received representations from three major international airlines on carriage of its freight. After review, MTX was of the opinion that all airlines were similar as to charges, that KLM had an advantage of the airlines with landing rights in Saudi Arabia, KLM was the only airline with a local Winnipeg office.

Third question: Have any employees at MTS or MTX personally gained from this special KLM account at MTS-MTX?

Recently MTX received a reconciliation of the account. Having regard to the implications of this question, the matter of the account and the KLM reconciliation has been enquired into by MTS legal counsel. Counsel has advised the chairman of MTS, based upon his enquiries to date, as follows:

- (1) The operation of the KLM credit account, as stated in answer No. 1 above, is confirmed by the employees of MTX who negotiated and established the credit arrangement.
- (2) There appears to be three instances where KLM has departed from the agreed upon operation of the account. In all of these cases, KLM has debited the account with charges that had not been invoiced to MTX. In two of these instances, the debits were for freight traffic rather than for passenger travel. In one instance, the debit made by KLM appears to have been instituted through the MTX Saudi Arabia office instead of the Winnipeg office. In each of the incidents noted, MTX business was only peripherally involved and a personal benefit appears to have accrued to MTX personnel.
- (3) The three debits in question involve a total amount of approximately \$2,400 and represent charges that should have been billed by KLM directly to employees of MTX who appear to have benefited from the service and should not have been charged by KLM against the MTX account.
- (4) KLM was requested to provide, and undertook to provide as soon as possible, complete particulars of the establishment and operation of the account and of these anomalous charges and the full explanation of KLM's authority to have charged the MTX account instead of billing the individuals involved. KLM has now advised that in view of the particulars being requested for MTS lawyers, the enquiries are directed to the Winnipeg solicitors for KLM. Since its inception in July 1983 to March 31, 1986, MTX has received a total credit to the account of

\$27,817.73 and had, at March 31, 1986, a credit balance of \$1,542.72. Enquiry is continuing.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, might I ask Ms. Edmonds why it is, as Chairman of the MTS Board, that she is answering a question regarding MTX affairs?

MS. J. EDMONDS: Mr. Chairman, I am providing the committee with the results of an enquiry that I set in motion as chairman of the board, as a result of the questions that had been raised.

MR. D. ORCHARD: Mr. Chairman, there appear to be some uses of the KLM special account for personal gain by MTX employees. Your answer would seem to indicate that it was an internal matter with KLM, that they would make those charges to that special account.

Is it a fair assumption on my part that someone would have had to, within the MTX organization, provided instruction to make those charges from the special account?

MS. J. EDMONDS: Mr. Chairman, I have provided all the information I have, both as to how the account operates and as to what enquiries had been made and the responses we've had.

I think further elucidation will have to await the response of KLM's legal representatives to our enquiries.

MR. D. ORCHARD: So, Ms. Edmonds, you're indicating to me that you are unable to answer whether instructions were given by MTX employees that those charges which resulted in what appears to be personal gains, you're unable to tell me whether those charges to the special account were initiated by anyone in MTX.

MS. J. EDMONDS: Mr. Chairman, once again, I'm providing the committee with the report I have available to me and I have no further information.

MR. D. ORCHARD: Mr. Chairman, I think that would be a very valuable piece of information for you to have, as chairman of the board, Ms. Edmonds, as to who, if anyone in MTX, authorized the charging to the special KLM account, of charges which resulted in personal benefit, according to your answer, to MTX employees. Would that not be something you could find out and report back on?

MS. J. EDMONDS: Precisely, that's exactly why we're awaiting further results of the enquiry, Mr. Chairman, and we will certainly make the information available when we have it.

MR. CHAIRMAN: Mr. Filmon, on that point.

MR. G. FILMON: I wonder, in making the enquiries, if Ms. Edmonds could establish whether or not that kind of arrangement of a credit accruing to the customer contravenes any regulations of the IATA, the International Air Travel Authority.

MS. J. EDMONDS: Yes, Mr. Chairman, we can enquire.

MR. D. ORCHARD: Mr. Chairman, I wonder if Ms. Edmonds could provide also who in MTX was responsible. Obviously, someone must have negotiated the arrangement with KLM. Could you indicate who that employee was; to whom that employee would obviously report because I'm assuming he would not have authority outside of, say, the president of MTX or possibly even the board of MTX to undertake, because it's my understanding from your answer that the business was not tendered? It was a negotiated agreement that was made, arrived at with KLM.

So, could you indicate which employee had set up the account, to whom that employee would have reported? You might have that information right now.

MS. J. EDMONDS: Mr. Chairman, we will provide that information on a further occasion.

MR. D. ORCHARD: Mr. Chairman, is Ms. Edmonds at liberty to indicate who the employees are who have personally benefited from the use of the KLM special account?

MS. J. EDMONDS: No, Mr. Chairman. The enquiry is not complete.

MR. D. ORCHARD: So I take it, Mr. Chairman, that Ms. Edmonds has no idea as to who those individuals are.

MS. J. EDMONDS: Mr. Chairman, I think the words I used were, "apparently benefited. We don't know yet whether anybody actually benefited.

MR. D. ORCHARD: Mr. Chairman, when do you expect to know that?

MS. J. EDMONDS: We had rather hoped to have information from KLM before this meeting, Mr. Chairman. We would expect to have the information reasonably promptly.

MR. D. ORCHARD: Mr. Chairman, with the information that Ms. Edmonds has agreed to, I think we should be able to pursue that at a later date, thank you.

Mr. Chairman, I want to ask Mr. Provencher which of the partners from MTX were present at the December 4, 1984 partners' meeting, December 4, 1984.

MR. M. PROVENCHER: Mr. Chairman, on December 4, 1984 there was a board of directors' meeting. Present were - and I presume your question is in relation to SADL - present at that meeting were Sheik Abdullah Al Bassam as Chairman; Mr. Samuel Glover Anderson as Vice-Chairman; Mr. Tariq Al Bassam as a member; Mr. Maurice J. Provencher as a member; and Mr. Barry A. Gordon as a member. Those were the members who were there.

MR. D. ORCHARD: Mr. Chairman, to follow up on what the Attorney-General was indicating in terms of questions posed by my leader and myself on July 14, 1983, I apologize to the committee today that we weren't precise enough in our questions in that we didn't use the word, "kickback," or the terminology from Saudi

Arabia as "bacsheish." But, Mr. Chairman, the questions are very, very clear in that we wanted to know whether any finders' fees or any obligations undertaken to secure business arrangements in Saudi Arabia. That question was followed up by my leader as to whether remuneration is paid to arrange business in Saudi Arabia.

I realize that we have to have the exact, precise month, date, year and almost time of day before we get correct answers; but the question was very, very straightforward as to whether finders' fees; whether there was the necessity to pay people to arrange business in Saudi Arabia. That was answered in the negative in 1983, Mr. Chairman.

Now, in August of 1983, Mr. Holland met Mr. Aysan in London, England to discuss, presumably as we were told the other day, Mr. Aysan's mental and physical health. No discussions had taken place apparently of the kickbacks which were questioned at that time, whether the flogging incident, etc., was part of the discussions.

But we have now confirmed, and I simply read from the record of 21st of August, 1986, the December 4, 1984 meeting of, not the partners but, the shareholders now where Mr. Provencher just indicated that Mr. Anderson, Mr. Provencher and Mr. Gordon were present at that meeting, and this is December 4, 1984.

"The MTX-Saudi Arabian partner at a December 4, 1984 partners' meeting advised that serious charges were pending by the Saudi authorities against a manager of the Telecom Division of Al Bassam International for an attempted unwarranted payment to a Saudi government official." Later on in that same paragraph: "At the same December 4, 1984 partners' meeting, Mr. Aysan advised that he had become aware of an unwarranted payment to a bank representative. He informed the partners that the unwarranted payment was made by the Datacom Division of Al Bassam International, and was authorized by the former president of that division."

Mr. Chairman, while these questions were posed in July of '83 and while the shareholders, the partners in the Saudi Arabian venture as of December 4, 1984 were made aware of allegations of unwarranted payments, at that same time the Provincial Auditor was investigating in December, 1984 and January of 1985, about unwarranted payments and kickbacks. I'd like to know, Mr. Chairman, from the Minister, since his leader the Premier stood up yesterday and indicated that there was no indication of bacsheish according to the Premier yesterday in that investigation, but yet Mr. Ziprick has indicated that that was one of the allegations made. The partners' meeting on December 4, 1984 was informed of the possibility of kickbacks, unwarranted payments.

Was the Auditor's investigation incomplete in that none of the three individuals, Anderson, Provencher and Gordon, were even asked as to whether there were circumstances of unwarranted payments?

Can the Minister now indicate how the Premier was so definitely able yesterday to say that the Auditor's report did not in any way deal with any allegations of bacsheish when such allegations were made, not only to the Provincial Auditor, Mr. Ziprick, at that time, but were also made to the partners' meeting on December 4, 1984? How did this slip between the lines?

HON. A. MACKLING: Mr. Chairman, my understanding is that the present Auditor was never advised by the former Auditor of any allegations of kickbacks; and that Mr. Miller had never been apprised of any alleged kickbacks from the former Auditor.

MR. D. ORCHARD: Mr. Mackling, you are saying that Mr. Ziprick had not informed the then Chairman of the Board of MTS, Mr. Miller, of any of the circumstances and the allegations made, including which were kickbacks. That's what you're saying today, that Mr. Miller was never informed of that.

HON. A. MACKLING: No, Mr. Chairperson. I'm saying that the advice that I have is that Mr. Miller has indicated that there was no discussion of kickbacks or bacsheish.

MR. D. ORCHARD: Mr. Chairman, just what did Mr. Miller advise you was discussed in 1984 after allegations were made to the then Provincial Auditor, Mr. Ziprick? What communication did he have with his Minister responsible?

HON. A. MACKLING: I'm sorry, would you repeat the question? I was diverted for a second, I'm sorry.

MR. D. ORCHARD: You've just indicated, Mr. Mackling, that Mr. Miller has indicated, if I understood you correctly, that there was no discussion prompted by Mr. Ziprick of allegations of kickbacks in 1984. Just what was it that Mr. Miller was informed of by Mr. Ziprick, according to Mr. Miller's indication to you?

HON. A. MACKLING: Mr. Chairperson, it's an area that I don't have personal knowledge of. It's knowledge that Mr. Miller has in respect to Mr. Ziprick and it really is a rather remote exchange of information, but I've been assured that while there was a discussion between Mr. Ziprick and Mr. Miller, there was no discussion of an alleged kickback or bacsheish.

Mr. Holland has some further information he wanted to add on that. Perhaps that might provide a little information, I don't know.

MR. G. HOLLAND: Mr. Chairman, I'm aware that a large local daily newspaper described my trip to London as to inquire after Mr. Aysan's health. I explained to the committee that I was concerned and I hope that hasn't become old-fashioned to be concerned about one's staff and one's colleagues, but the transcript also covers many other significant matters that we dealt with at that time.

It was to brief Mr. Aysan on what was happening at the System; some changes in technology and areas that he was particularly interested in; the support that MTS was providing; whether he personally needed support; a succession plan; and many other facets. So I think that, in fact, it was a justified, worthwhile trip.

MR. D. ORCHARD: Mr. Chairman, to follow up with the Minister responsible for the Telephone System who, I think - well, Mr. Chairman, I do this with all temerity. I'm quoting from that major Winnipeg newspaper, and it may get me into a great deal of trouble because it seems as if they are constantly at odds with this

government. Mr. Chairman, it says in here, "Miller confirmed" - I presume that refers to the former chairman, Saul Miller, of MTS - "yesterday that Ziprick had told him of the allegations and he had passed the information to Uskiw."

I will admit that the allegations may or may not include the allegations of kickbacks but, nevertheless, I would think if some allegations were passed on to the Minister, I would assume that doing a responsible job as Mr. Miller usually did, he would pass all the information on to the then Minister, Mr. Uskiw.

The newspaper report further says, "The former MTS chairman and NDP Cabinet Minister refused to name those reportedly involved in the alleged payoffs, which he called a misappropriation of money."

Mr. Chairman, we've got a situation now where, as we get into this whole scenario and this whole scandal more, we find indeed that government officials, Ministers responsible, may well have had knowledge of the allegations of kickback other than those made by my leader and myself in this committee; that they may well have had knowledge well in advance of these series of meetings about the very serious doubt about the collectibility of accounts in Saudi Arabia, all of which have been supposedly completely new information to this Minister and to the government.

That, Mr. Chairman, brings us to the stage where we have to really ask how is the Coopers and Lybrand investigation going to get to the bottom of this thing? We've got so many pieces of information that as we sit across the table from MTS-MTX officials, we get renewed versions and more information, and now we find out that indeed as early as December, 1984, a Cabinet Minister and this New Democratic Party Government had been informed at least of some of the allegations. I presume the information would be correctly passed on by Mr. Miller, as given to him by Mr. Ziprick, and it would include allegations of kickback. Yet this Minister and his government for the last two months have said we know nothing; we hear no evil, we see no evil, we speak no evil.

Mr. Chairman, I believe that the reason we're not getting a full public inquiry is just because the extent of elected-government knowledge would be much greater than what we have been led to believe to date, and if that's the case, I think Coopers and Lybrand will not be able to get to that information and that will be a travesty of justice and the people, the sincere and honest employees of MTS who wish to have this whole mess cleaned up so the corporation can be restored to its former reputation in the community, will not happen as long as we don't get a complete investigation.

Mr. Chairman, I have some questions that I want to pose . . .

MR. CHAIRMAN: Mr. Mackling.

HON. A. MACKLING: Mr. Chairperson, the Honourable Member for Pembina raises questions. I've indicated that this Minister has no personal knowledge. I am relying on information that's been conveyed to me. He continues to express concern that the Coopers and Lybrand management audit will be able to review the areas of concern that have been justifiably evidenced at this committee in respect to relationships, the

adequate communication of information within the system.

I referred him to the terms of reference that specifically provide and direct that the management consultants will address those issues and, for his benefit, I will read two of the specific terms of the terms of reference, and there are others that could be read as well.

"4. Review and assess the performance of MTS and MTX management staff in managing MTX in complying with the code of conduct for Manitoba Crown corporations, and in protecting the public investment in this operation.

"5. Review and assess the adequacy and accuracy of management and operations information provided to the Winnipeg headquarters, to the MTX board, to the MTS board and to the government."

Of course, there are further references to investigating and reporting on all non-criminal matters pertinent to the management and performance of MTX raised in the affidavit of Ian Ferguson, August 7, 1986, and any other relevant matters which may be raised by other interested parties in the course of this review. Then, the last one:

"11. Report on any information which may arise in the course of this review related to the provision of inaccurate, incomplete or misleading information to, or the withholding of information from the MTX or MTS boards or the government."

Those terms of reference specifically mandate the kind of searching inquiry as to the adequacy of communication with which the honourable member raises legitimate concern.

MR. D. ORCHARD: Mr. Chairman, since the Minister wishes to have full and complete information provided to us, will he determine, as a result of the Auditor's investigation in 1984 into a number of allegations, including the accounts receivable being questionable in Saudi Arabia, including allegations of the use of kickbacks. Would the Minister undertake to determine whether senior officials of MTX; namely, Mr. Anderson, Mr. Provencher, Mr. Gordon, were at any time contacted through the Provincial Auditor's Office as to whether there was any substance to the allegation of kickbacks which were reported at the December, 1984 partners' meeting to those same three individuals? Could the Minister undertake to investigate the extent of the Provincial Auditor's investigation and report back as to whether those individuals were contacted?

HON. A. MACKLING: I think that any and all questions of that nature certainly will be reviewed.

MR. D. ORCHARD: Mr. Chairman, I have some questions for Mr. Provencher dating back to the \$1.5 million loan.

Mr. Chairman, to Mr. Provencher, the \$1.5 million loan, the funds that were used in that loan were the share capital or the subscribed capital, SADL, 50 percent of which was from MTX, 50 percent from Al Bassam, is that correct?

MR. M. PROVENCHER: Mr. Chairman, yes, they were the share capital proceeds that were on deposit at the National Commercial Bank in Saudi Arabia.

MR. D. ORCHARD: Now, further in your answer of I believe it was last meeting, you indicated that advance to Al Bassam was recorded as a note receivable from Al Bassam International Telecom in the SADL accounts.

Now I've got a spare copy of them for you so you don't have to fish through your files, and I'll just have that go over to Mr. Provencher, Mr. Chairman, so he can show me in the SADL accounts that were provided by the Minister where that note receivable shows up for \$1.5 million.

MR. M. PROVENCHER: Mr. Chairman, the statements that were just handed to me by Mr. Orchard were for the period ending December 31, 1984, and by that period of time the advance was totally settled; it didn't appear on the balance sheet.

MR. D. ORCHARD: Now, Mr. Chairman, I'd like to find the preliminary unaudited - here we are. Maybe Mr. Provencher could show me where the note payable is noted in the preliminary unaudited Al Bassam International Company, Datacom Division balance sheet, where it's noted in there.

MR. M. PROVENCHER: Mr. Chairman, those statements are as of June 7, 1983. That transaction did not occur until June 8th.

MR. D. ORCHARD: Okay. I've got statements in front of me which take me from the 15th of August, 1982 to the 7th of June, 1983. I've got statements which take me from the 7th of June, 1983 to year ending December 31, 1985, which I think during that period of time you made a \$1.5 million loan. You are saying that it's not in either of those statements, and those statements are complete?

MR. M. PROVENCHER: Mr. Chairman, a balance sheet is of a specific point in time. The balance sheet that was handed to me by Mr. Orchard is at December 31, 1984. At that period of time that advance was totally repaid through offsets in intercompany account and would not appear as of that date on the financial statements.

MR. D. ORCHARD: Then can I refer you to Page 5, Mr. Provencher, wherein it says Notes Payable on Note 6, Page 5 of the 1984-1985 financial statements. It says in Notes Payable: "The company obtained a loan against promissory notes secured by personal guarantees of Sheik Abdullah Al Bassam. The company . . ." - and I presume when we talk "the company" in here, we're talking SADL - ". . ." has advanced the amount received to an affiliated company to finance inventory for joint projects. The loan and related bank charges were repaid fully by the affiliated company in a subsequent period."

Mr. Provencher, could you explain this transaction?

MR. M. PROVENCHER: Mr. Chairman, that note refers to a credit facility that Sheik Abdullah had set up with Lloyd's Bank in Bahrein. Under that facility, they had advanced funds under his personal guarantee. The said funds were then advanced from SADL to Datacom for payment of outstanding supplier invoices and does not

relate to the advance that we have just been discussing. It is separate and apart.

MR. D. ORCHARD: Okay, then what we're talking about in the advance, first of all, that SADL obtained a loan against a promissory note of the Sheik; they took the proceeds from that loan that they made against the promissory note; they lent it to one of the Sheik's companies to finance inventory for joint projects; that is the second loan then that was made by SADL to the Saudi Arabian Sheik. Is that what you're saying, Mr. Provencher?

MR. M. PROVENCHER: What I'm basically saying is that Sheik Abdullah did provide a line of credit same as we have provided through the Bank of Nova Scotia and the Royal Bank for the benefit of the joint venture. That loan was guaranteed by him through SADL. The proceeds were then advanced to Datacom in order to pay supplier invoices on behalf of the joint venture.

MR. D. ORCHARD: So, Mr. Chairman, what we have once again is the Sheik putting up a personal guarantee and then SADL, of which Manitobans are 50 percent exposed, then takes out a loan and lends it to the Sheik's company to pay its debts, so that Manitobans are 50 percent involved in any failure of that loan. Is that a correct assessment?

MR. M. PROVENCHER: No, it's not. That loan facility was 100 percent irrevocably guaranteed by Sheik Abdullah.

MR. D. ORCHARD: Mr. Chairman, once again we've been told, and I simply remind committee, that our accounts receivable last year, those accounts receivable now that the Minister and others admit are questionable in their collection, were also presumably guaranteed by that same Sheik.

Mr. Chairman, I just want to make clear here. We're talking about the company taking out a loan and then using the proceeds of the loan to make another loan to the Sheik's company. Now you can call it an advance, whichever you wish to do in terms of accounting procedure, but basically when I take money out of a bank and I give it to another individual, we're talking, in laymen's terms, a loan, and that's the second one - is that a fair assessment - that was made to the Sheik's company?

MR. M. PROVENCHER: Mr. Chairman, as I indicated, it's not a loan; it's a credit facility that was established by Sheik Bassam on behalf of the joint venture through the Lloyd's Bank International in Bahrein. It is the same as our Bank of Nova Scotia line that's guaranteed by the province or the Royal Bank line that's guaranteed by Manitoba Telephone System.

That personal guarantee is on behalf of the joint venture and was for payment of liabilities of the joint venture. The board then allocated those funds for payment of liabilities that were in the Datacom Division of Al Bassam International.

MR. D. ORCHARD: Mr. Chairman, I fail to see why, if the Sheik is personally guaranteeing it, why he didn't

offer the personal guarantee to that same bank and then have his 100 percent wholly-owned division go to that same bank; namely Datacom, borrow the money on the Sheik's personal guarantee and pay the debts.

Why did it have to be put through SADL? Why did SADL have to get involved if the Sheik put up the personal guarantee and the Sheik's 100-percent company ends up with the money? Why did it not go direct? Why was SADL involved?

MR. M. PROVENCHER: Because it was a method of financing that was agreed to by the partners.

MR. D. ORCHARD: Mr. Chairman, of what possible advantage to the taxpayers of Manitoba was it that the Sheik would offer a personal guarantee, our 50 percent company would then borrow on it and be responsible for repayment if there is failure of the personal guarantee, and then turn around and lend all of the money back to the Sheik's 100-percent-owned company. What's the advantage to the Manitoba taxpayers of that sort of an arrangement?

MR. M. PROVENCHER: The prime advantage is that the funds were being provided by Sheik Abdullah for local purchases in Saudi Arabia, and it's funds that we didn't have to put up on a 50-50 basis at that point in time. So to the extent that funding was there, it's less funding that would have been done through MTX or purchases through Canada.

MR. D. ORCHARD: But, Mr. Chairman, we're talking about relending the money to the Sheik's 100-percent-owned company - are we not? - or a division of the Sheik's 100-percent-owned company. We're borrowing money on the Sheik's personal guarantee, putting it through SADL and relending it entirely to the Sheik's 100-percent-owned company. Mr. Chairman, that doesn't make a great deal of sense to me.

Why are we doing that, Mr. Chairman? There is no advantage to the Manitoba taxpayer in doing that that I can see.

MR. M. PROVENCHER: Mr. Chairman, I think every dollar or riyal that's been put up by Sheik Abdullah is a direct advantage to the joint venture. The local purchases that were made on behalf of the joint venture by Datacom were for the ultimate enjoyment of both parties either through SADL or Datacom. That financing was a direct benefit to the partnership.

MR. D. ORCHARD: Mr. Chairman, that's a very interesting analogy because the Sheik did not put up five cents. He put up a personal guarantee from which SADL borrowed the funds, 50 percent of that responsibility being the Manitoba taxpayer and only 50 percent, theoretically, being the Sheik, and the Sheik's company got 100 percent of the money.

Now, you know, to me that doesn't seem like that is a really shrewd business arrangement to be making on behalf of the people of Manitoba where the Sheik doesn't put up 5 cents, puts up a personal guarantee, SADL then borrows the money to which Manitobans are 50 percent exposed, and then relends it in its entirety to the Sheik's 100-percent-owned company to

whom -(Interjection)- what's incorrect about the final premise?

HON. R. PENNER: That the lending of the money back to the Sheik's wholly-owned company, they don't lend that money to the company . . .

MR. D. ORCHARD: Now we've got the Attorney-General explaining something that the financial officers of MTS can't explain.

MR. CHAIRMAN: Could I ask members not to address comments to each other, but to address comments through the Chair and obtain recognition before they do so?

Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, when the Sheik's 100-percent-owned company ended up with the proceeds of the loan made by SADL, it begs the question: why did the Sheik not simply lend the money on a promissory note directly to that division if it was going to end up there anyway? Why put it through SADL? And I know you've answered that; it doesn't make any sense to me.

MR. M. PROVENCHER: Mr. Chairman, they were for local purchases. He could very well have done that through Datacom. In his wisdom, he chose to do it through SADL.

MR. D. ORCHARD: I should say in his wisdom . . . you're quite correct, Mr. Chairman, when Mr. Provencher says in the Sheik's wisdom, he did it through SADL.

Mr. Chairman, I've got a couple of other questions; one is to Mr. Holland.

Mr. Holland, we asked you a couple of sessions ago if you had been informed about the unsecured, unapproved \$1.5 million loan, and I'm quoting from Hansard, and you replied that you had no recollection of ever being informed of it. I have checked to make sure that this is absolutely correct, and I find that the information Mr. Provencher has just provided was reviewed with me. When was that reviewed with you, Mr. Holland?

MR. G. HOLLAND: Mid-November of 1984, likely around the 16th.

MR. D. ORCHARD: And that was after the loan had been in existence since June 8th of 1983.

MR. G. HOLLAND: The advance or loan, as described by Mr. Provencher, was reviewed with me with many other factors, and that would be, yes, June of '83 that occurred.

MR. D. ORCHARD: Mr. Chairman, Mr. Provencher last Thursday answered some questions regarding the guarantees that are in place. I'd like to ask Mr. Provencher some questions on that, Mr. Chairman.

Mr. Chairman, to Mr. Provencher, you indicate in your answer that during September 1983 the Royal Bank established a revolving non-recourse \$1.6 million

Canadian line of credit between MTX as the exporter and Al Bassam International Company Telecom as the importer. Now this non-recourse facility was set up based on Royal Bank's assessment of Al Bassam International's financial viability. This facility was for a period of one year only and was not extended by the Royal Bank after August 31, 1984.

Was any reason given or are you aware of any reason, Mr. Provencher, why the Royal Bank did not extend that line of credit in which MTX could then presumably entertain sales to the Telecom Division?

MR. M. PROVENCHER: No specific reason, Mr. Chairman.

MR. D. ORCHARD: Mr. Chairman, there has been concern dating back to the inception of our venture with Al Bassam International Telecom that Telecom was, for instance, not up-to-date in its accounts with Mitel and maybe other suppliers.

Would their financial payment record have had anything to do with the Royal Bank not extending the line of credit?

MR. M. PROVENCHER: I have no direct knowledge of that.

MR. D. ORCHARD: Mr. Chairman, I suppose that we can't pursue that because it is a third-party dealing, but it would be most interesting to know - and, Mr. Minister, you would probably be quite interested in knowing - whether the Royal Bank had decided that perchance Telecom Division was not a sufficiently viable enterprise in Saudi Arabia to extend a line of credit for sales by MTX to them when we had gotten into a partnership with that same company.

Mr. Chairman, I have a question for Mr. Holland. Further in that answer by Mr. Provencher, Mr. Provencher has indicated that during December 1983, a \$3 million Canadian revolving line of credit was established by the Royal Bank for MTX export sales to Datacom, a division of Al Bassam International. This facility was backed by a Letter of Comfort from the Manitoba Telephone System, and this facility is still in place.

Mr. Holland, was that a decision that, as president of MTX, you were fully aware of?

MR. G. HOLLAND: Mr. Chairman, I think Mr. Provencher has records on that. He says that was approved by the MTS Board.

MR. D. ORCHARD: Mr. Chairman, in receiving approval at the board level of MTS, I'd like to ask Mr. Holland, as president of MTS, did you make that recommendation to the board that they extend the \$3 million line of credit to sales to Al Bassam International Datacom?

MR. G. HOLLAND: Mr. Chairman, I'll have to go back and check the 1983 records and provide that to the committee.

MR. D. ORCHARD: Mr. Chairman, I think probably the leader has some questions that have come up since and I'll defer to him if he's on the speaking list.

MR. CHAIRMAN: I've got a speaking list and members of the committee may recall some discussion about it at the last committee.

Mr. Dolin.

MR. M. DOLIN: Yes, I just have a couple of questions very quickly.

At the meeting on August 21st, asking Ms. Edmonds about the minutes of the board meeting discussing the discrimination area, I'm wondering, would it be possible - I could express it probably to the Minister - those minutes were not yet prepared and she was recollecting from the flavour of the conversation. Would those minutes be available?

MR. CHAIRMAN: Ms. Edmonds.

MS. J. EDMONDS: Mr. Chairman, those minutes would be presented in draft to the next regular meeting of the MTS Board which takes place next week. After they've been approved by the board, it is our practice to enable those who wish to consult them to do so on our premises.

MR. M. DOLIN: My question is: could those minutes be made available subsequent to this meeting and prior to the next one?

MS. J. EDMONDS: I'll have to check what our provisions are in that area, but I would not expect the board to have any objection to that at all.

MR. M. DOLIN: Those minutes, I'm particularly interested in the areas and discussions that Ms. Edmonds mentioned on the 21st dealing with the policy of anti-discrimination.

Also, if there is any further discussion at the board meeting coming up this week, would it be possible to get that information?

There was some discussion of developing policies. I would like to know what policies have been developed, and if that information could be made available to the committee for its next sitting, I would appreciate it.

MS. J. EDMONDS: Mr. Chairman, an excerpt from the minutes, I'm sure, could be provided.

MR. M. DOLIN: I missed the response.

MS. J. EDMONDS: Yes, I'm sure we can provide an excerpt on the specific topic the member is concerned about.

MR. M. DOLIN: Yes. The quote from August 21 - "The board feels that there is a very serious consideration to take into account. The board is dealing with or would deal with existing situations and would have to assess each one as it arose." - I'm particularly interested in this situation and I'm wondering if there could be any specific board policies dealing with foreign dealings by MTS-MTX, any other subsidiary.

What specific policies have been put in place or are being planned to be put in place for any of the subsidiary or major operations of MTS dealing with foreign laws that discriminate?

MS. J. EDMONDS: Mr. Chairman, I reviewed with the committee previously the discussion that took place at our July 28th board meeting. I would not expect the board to return to this topic until after the report of the management audit had been received, but if there are any further discussions between now and the time that the committee meets again, I will undertake to bring them to the committee's attention.

MR. M. DOLIN: I'm not clear how the management consultants would be involved in a matter of MTS or MTS policy. I mean this is an MTS policy. It's not a matter, to my understanding, of consideration of either management consultants or the Mounties.

What I want to know is what is the policy of MTS?

MS. J. EDMONDS: Mr. Chairman, if the member is asking for the policy of MTS on matters of discrimination, I'll be happy to table relevant documents. If the question is what are the specific arrangements that MTX might now put in place in the light of the discussions that have occurred in connection with operating in various other jurisdictions, that I think will have to await discussion.

HON. A. MACKLING: I just refer the honourable member to Term 1 of the Terms of Reference, which specifically provides for the management consultants to assess the ability of MTX and SADL to operate in Saudi Arabia in full compliance with human rights legislation and the code of conduct for Manitoba Crown Corporations.

MR. M. DOLIN: If I can just clarify, my specific concern is, No. 1, with the current operations in Saudi Arabia, both the subcontract for Bell and the MTX-SADL operation.

My more general concern is the fact of a more generic look at our policies in dealing abroad and where are we going to deal, and I am not satisfied with being told that this will be done on a case-by-case basis, which I assume will be after the fact.

For example, in this document, "An Introduction to Saudi Arabia," I look at import and custom regulations. You are not allowed to take with you into the country globes and maps identifying Israel, articles bearing a six-pointed star, recordings or tapes of Jewish artists, religious articles other than those relating to the Moslem religion. This is very clear as to Saudi law and it is not very clear what the policy of MTS was in dealing with such restrictions.

Now this is a particular instance, not a general instance. I am concerned. I would like to know what MTS policy has been discussed; what is going to be done about this particular matter of Saudi Arabia; also the fact that women can't own or drive cars is put in this area. I would like to know what they are planning to deal in a more generic manner in foreign dealings and any partnerships or any marketing of products abroad where this kind of situation occurs. That is what I'm trying to get at and I'm wondering if that information can be provided to me.

MS. J. EDMONDS: Mr. Chairman, I think I indicated that the board at its July 28th meeting recognized that

it had not had an explicit policy on those points and intended to develop one.

I can report to the committee of the result of subsequent discussions.

MR. M. DOLIN: Fine. Thank you very much, Ms. Edmonds.

MR. G. FILMON: Mr. Chairman, I've had an opportunity to review the report on the very complex relationships between SADL, Datacom and so on that was provided by Mr. Plunkett. There are certainly many areas that should be raised, but I'll just quote a couple of things for the record because I think they're self-evident as to what my concerns are, and that is in one point it says that the business of the joint venture would be known to and controlled by SADL on a continuous day-to-day basis, and that joint venture that's being referred to is Datacom, the division of Al Bassam International.

It says further that because SADL effectively controls the entire operation of Datacom Division, MTX has been satisfied to rely on the consolidated reporting of SADL and Datacom Division operations, so in fact our staff is totally involved with that operation of Datacom.

It speaks earlier of the control of purchases, sales, banking and administration in Datacom Division rested exclusively with SADL, through the provision of its staff, under the terms of the management agreement of June 7, 1983. So although Datacom is a wholly-owned subsidiary of Al Bassam International, it has been totally controlled by the staff of the joint partnership, the SADL operation. So that everything that was happening in Datacom was undoubtedly known to the staff of SADL involved, and perhaps, through them, to MTX senior officials and MTS senior officials.

Yet the total responsibility for any financial reporting and the audit was all done by the Sheik's company and the Sheik's auditor, who is listed here as Talal abughazaleh, so we're divorced from whatever might have happened in terms of a reporting sense and an auditing sense, and yet we're totally involved in all of the operations. In fact, we control that company that's owned by the Sheik.

I find that to be, No. 1, an unusual relationship - I'll say that; and, No. 2, I'm very concerned that the investigation by Coopers and Lybrand will not allow us to get into the books of that related company even though it's being totally controlled by SADL employees.

We will have no legal entitlement to get at the books of Datacom Division despite the fact that we run Datacom Division, and that if indeed there are any kickbacks, our staff may know about them but they'll never show up because they're in the books of the related company to which we have no access, and that neither Coopers and Lybrand nor anybody else is likely to get at the heart of this problem. That is a continuing ongoing concern to me.

And all of the information that was conflicting as I said on the record earlier, being told that SADL does not sell computer equipment and finding out that it does, finding that there's little or no evidence of investigations into the financial stability and capability of our partner, and all those things, are ongoing sources of concern to members on our side that say to us that this whole operation has had concerns raised, legitimate right from the beginning.

December of 1984, the Auditor being made aware of concerns about collectibility of accounts, about the lack of financial records and about the possibility of illegal payments - all of those things being known all the way back to that point and yet very little, if anything, being done to try and arrive at a solution. I'm not satisfied, quite frankly, that even the measures that this Minister has undertaken are going to get to the bottom of all this.

Now the additional information today that the KLM account may have been used for personal use, and it may have been in a small way, but all of those things lead us believe that there is so much more that has to be investigated and reported upon.

I say to this Minister that unless we are satisfied, having seen the results of the investigation, that this whole matter is gone through with a fine-toothed comb, we will be continuing to urge beyond the receipt of that report from Coopers and Lybrand for a full and complete public inquiry into the matter because I see, everytime we meet, so many new questions being raised, so many gaps in knowledge and information, and the fact that it all leads to the point that where we should be able to investigate, we have no powers legally to investigate because of the relationship with the Sheik's company.

And I say to you, Mr. Minister, that I wouldn't be satisfied with that relationship and I can't understand how you could be.

HON. A. MACKLING: Mr. Chairperson, I anticipated the honourable leader would be a couple of moments. I only want about three minutes myself, but I want to put on record, first of all, that while I may appear at times to be defensive, I am not defensive about the Telephone System or the MTX.

There have been legitimate concerns raised by members of this committee, particularly the Member for Pembina, the Leader of the Opposition and others, as to the working arrangements of MTX. Those are legitimate concerns and a responsible Minister has to act quickly in respect to those concerns.

The most serious concerns were evidenced in an affidavit that was filed with this committee, and this Minister had no foreknowledge of any of the allegations contained in that affidavit, and this Minister acted promptly, and this government has acted promptly, to ensure that there will be a thorough investigation of all these matters.

We are confident that Coopers and Lybrand will effectively investigate every matter within the terms of reference, and those terms of reference are comprehensive, will allow for a search inquiring as to the communication of information to boards and Ministers to ensure that there is accountability, because that is the concern.

As Minister responsible for the Telephone System, I looked at the act, and the act doesn't provide too much direct leverage by a Minister except through the board.

I have not attacked or accused anyone during the course of these hearings of any wrongdoing. This government and this Minister feels that the proper way is to get a full accounting, get all of the facts, and then take what steps are necessary, including, if the need

should arise, disciplinary measures in respect to any failure on the part of anyone or any part of the system.

There's no question in my mind, and I regret this very much, that information was current in Manitoba three years ago about allegations of misfeasance or malfeasance or wrongdoing or suspicions in respect to this operation, and I regret that there wasn't a political accountability at that time, but this Minister nor did any previous Minister before a committee receive any allegations that are contained in that affidavit or they would have been acted upon. Neither of my my predecessors heard any of those allegations.

So, Mr. Chairperson, I, as Minister, give the undertaking that as Minister responsible, there will be a full accounting. When we next meet, there will be the report available from the management audit and the RCMP investigation, an investigation that can open doors that no judicial inquiry can open.

The police have investigative rights second to none. They have the ability to talk to people in confidence, to have those people give their information either under oath or after a caution with counsel present. Employees have been assured that they have our full cooperation in respect to coming forward and cooperating with the RCMP and the management audit.

I am satisfied that that is the responsible thing to do; not accuse, not dismiss, not judge until we have a full accounting and a full accurate report as to where the system should be improved.

This Minister and this government are prepared to act, and act responsibly, in respect to any decisions that are required. I, frankly, appreciate the fact that the management weaknesses, the allegations that are there have been brought forward because those concerns should have been brought forward three years ago. We will act on them and we will act responsibly.

MR. CHAIRMAN: Committee rise.

COMMITTEE ROSE AT: 1:30 p.m.

BRIEF PRESENTED BUT NOT READ:

MTS-MTX INVESTMENT SUMMARY

The MTS investment in MTX Telecom Services at March 31, 1986, subject to audit by Arthur Andersen and Co., is \$19,603,000, consisting of \$7,580,025 for 303,201 MTX Telecom Services Inc. common shares and \$12,023,000 for advances. There is also an MTS contingent liability amounting to \$1,264,000 for guarantees to the Royal Bank for outstanding bank drafts that have been accepted for payment by Datacom Division of Al Bassam International.

The total MTS exposure relating to MTX Telecom Services at March 31, 1986, subject to audit, is therefore \$20,867,000.00.

MTS fully recovers the interest costs associated with all advances to MTX Telecom Services Inc. The principal benefit to date flowing to MTS from its equity investment of \$7,580,000 in MTX Telecom Services has been through reductions in MTS operating expenses principally through the loan of its employees to MTX for projects and consulting contracts. This reduction

of operating expenses has increased the Manitoba Telephone System net operating revenues and retained earnings by \$1.7 million for 1985-86, \$1.1 million for 1984-85, \$0.8 million for 1983-84, \$0.8 million for 1982-83, and \$28,000 for 1981-82.

For the period 1981-82 to 1985-86, MTX Telecom Services Inc.'s accumulated loss has reduced MTS earnings by \$314,007.00. However, the MTX accumulated loss includes \$281,933 for MTX's share of the final costs from participating in the Spectri Management Canada partnership for the development of a proposal for a radio frequency management system for the Kingdom of Saudi Arabia.

The net return on the MTS investment in MTX Telecom Services has been an increase in the Manitoba Telephone System retained earnings, during the period 1981-82 to 1985-86, in excess of \$4 million.

In addition, \$8.8 million in orders have been placed with companies in Manitoba since the incorporation of MTX Telecom Services Inc.

The proceeds from the MTS share subscriptions and advances amounting to \$19.6 million have been used by MTX Telecom Services for an equity investment in SADL amounting to \$794,053, a shareholder advance to SADL amounting to \$2 million, financing of accounts receivable from Saudi Arabia amounting to \$9,398,000, financing of accounts receivable from other customers - \$1,755,000, and investment in ACT technology of \$682,000, an investment in CIL INET of \$2,756,000, purchase of fixed assets net of depreciation amounting to \$25,000, and working capital required to fund inventory prepaid expenses, deferred development costs, and work in progress, amounting to \$2,194,000.00.

The MTX exposure in Saudi Arabia, subject to audit, as at March 31, 1986 is \$16,571,000, consisting of \$9,398,000 in accounts receivable, \$2,794,000 in equity and shareholder advances, and a contingent liability for outstanding bank drafts with the banks of Nova Scotia and Royal, amounting to \$4,379,000.00.

The contingent liability results from outstanding bank drafts with the Bank of Nova Scotia, amounting to \$3,115,000, which are guaranteed by the Province of Manitoba, and \$1,264,000 of outstanding bank drafts with the Royal Bank, which are guaranteed by the Manitoba Telephone System.

As a result of the slowdown in the Saudi economy which began in 1984 and was recognized in 1985, MTX Telecom Services and its Saudi partner commenced in April 1985 the following program to reduce the risk associated with protection of their investment:

- . seeking third-party equity investors in Saudi Arabia;
- . implementing marketing thrusts to increase revenues in the higher gross margin maintenance and data communication project areas;
- . reducing expenses and fixed overhead costs by approximately 45 percent;
- . reducing inventory levels by 50 percent;
- . freezing capital expenditures;
- . introducing a new accounting and management reporting system.

The above actions are expected to ensure that the joint venture in Saudi Arabia breaks even in 1987 with projected 1986 sales revenues of SR22 million. Profitability and recovery of investment will depend on successfully obtaining and completing major data communication and maintenance projects. The MTX recovery of investment in Saudi Arabia may take as long as five years.

Commencing with fiscal year 1986-87, MTX Telecom Services is expected to be less dependent on net revenues from Saudi Arabia in order to achieve profitability. Current marketing thrusts should significantly expand the MTX revenue base in North America. Revenues from these marketing thrusts are expected in 1985-86 and 1986-87 for MTX consulting services and for the installation of network management systems for MTX customers in the USA.