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HOUSE COMMITTEE PROCEEDINGS**

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**COMMITTEE: STANDING COMMITTEE ON PUBLIC ACCOUNTS**

**DATE: Tuesday, February 15, 2005**

**SUBJECT(S) BEFORE THE COMMITTEE:**

Further Consideration of the Polar Foods International Audit

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**NOTE:**

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**COMMITTEE**

**MEMBERS PRESENT:** Ronald MacKinley, Chair  
Jim Bagnall, Vice-Chair  
Wayne Collins  
Wilbur MacDonald  
Dr. David McKenna  
Cletus Dunn  
Hon. Robert Ghiz

**MEMBERS PRESENT:** Richard Brown

**GUEST:** Wes MacAleer

**STAFF:** Marian Johnston



**Standing Committee on Public Accounts**  
**Tuesday, February 15, 2005**  
**9:00 a.m.**

**Guest: Wes MacAleer, Former Minister of Development**

**Ron MacKinley (L) Chair:** Let's start - it's nine o'clock.

**Honourable Robert Ghiz (L):** (Indistinct) numbers like you guys did.

**Ron MacKinley (L) (Chair):** All right the fooling is all over. We got to be serious parliamentarians. We got to be serious.

If you go by the reports from John Jeffery and *The Guardian*. They don't like us into this political partisan stuff. So today I think we'll try to keep out of that if we can. I'm going to start with Robert and Richard and the rest of you people and just see if we can get through it without insults to each other.

Mr. MacAleer would you come forward. You can take your briefcase with you. Take everything up. Cletus, would you get him a drink of water.

**Cletus Dunn (PC):** Sure. [Laughter]. He said he's a coffee man.

**Ron MacKinley (L) (Chair):** Yes. Once he sits down. Call to order and welcome by the Chairman which was done. Considering the report of the Auditor General, government involvement with Polar Food International. Wes is the witness.

New Business will be brought up after we are done of Wes. Adjournment. Committee members are called the meeting scheduled - indicated adjournment time will be 12 o'clock. All right -

**Jim Bagnall (PC):** Before you move on here, Mr. Chair. If you look at number two there, the committee decided here the other day that we were going to meet from 1:00 to 5:00 on Thursday, February 17<sup>th</sup> before we left, not 1:00 to 4:00.

**Ron MacKinley (L) (Chair):** I thought it was 1:00 to 4:00, and I have an appointment at 4:30, that's one of the reasons why we called it for 4:00. So we'll bring that up later. Wes has to - we'll discuss that at a later date. What we're doing here is one, two, three, four. That can be brought up under

New Business.

**Jim Bagnall (PC):** Thank you. Will do.

**Ron MacKinley (L) (Chair):** We'll see how we get along here with Wes. Like you know what I said was some truth in it. If you look at Mitch Murphy when he did the Editorial Board, Wayne Thibodeau did a story; he didn't know much about Polar Foods. He was late getting into it as being Minister of Finance.

It is hard to - in all fairness to the committee to have a witness before us that has very little knowledge of the situation. Because let's face it, it was the Premier, Wes was there for a little time and Mike Currie. Really -

**Honourable Robert Ghiz (L):** Don MacKinnon.

**Ron MacKinley (L) (Chair):** And Don MacKinnon but the really the ringleaders was Mike Currie and the Premier. But the thing is, it's hard like if we had of had more witnesses like with Wes today, probably could of gotten Kent Scales or Leo Walsh in. Because we have three hours to question Wes MacAleer. Which - Mr. MacAleer, how long were you a Cabinet Minister after the Polar deal - after you signed the Polar deal? How long were you Cabinet Minister of Development?

**Wes MacAleer (PC):** About four months.

**Ron MacKinley (L) (Chair):** Four months. So we have a four-month window here. And I'm getting a lot of pressure from people and you can use Mac Campbell as my witness of some of them were around when Mac was there, conversations, but what they are doing is they sort of saying - well first of all, they congratulated me for having so much patience with you group. But people are starting to see through it.

We've got Wes MacAleer booked for three hours today. Why we don't have more witnesses lined up than our Clerk, I have full confidence in our Clerk, can arrange and today we are supposed to have

Colin Younker, that was the last meeting. Colin Younker can't attend today, so he can attend Thursday. So that meant that we could go with Wes or we had to close the meeting down, but we had the place booked, we have a staff on standby, everything.

So you really got to think of what message you are putting out to the general public. Mr. - CBC, former CBC reporter there, Wayne Collins and the rest of you because we got Wes. Now maybe Wes can go on for three hours. But there's only - like four months in all fairness to Wes, four months that he was involved after. He was involved up to the birth of it or the signing up.

So with that I'd just like to explain out that this committee is starting to look fairly laughable in the public's eyes is what people are saying to me. Because we are politicians, we're accountable to help the Auditor to become accountable to the Legislative Assembly, all right accountability. But you think that having Wes MacAleer for three hours, we'll see what happens, is accountable, we got to pay the staff, we got bring in the staff, we have to bring them in early for this meeting.

So all I'm suggesting is that really take your political hats off and put on your accountability hats after we're through with Wes here today and we decide what we're going to do. And make sure that we have some - a line up of witnesses to come forward in case somebody comes. Somebody could of been sick today, somebody could of been - like we got to show accountability. We're the committee that's responsible for accountability to the Legislative Assembly. When the Auditor comes to us, but we got to show that we're accountability with the taxpayers dollars.

For instance, we probably had to pay 50 bucks to get Cletus Dunn in here for mileage today. We probably had to pay \$30 Bagnall in for mileage today. I know you don't get paid extra for these meetings.

**Richard Brown (L):** Two fifty for me - \$2.50.

**Ron MacKinley (L) (Chair):** You got to look at the accountability of it. And I think we should try to make the best of our time that we use.

So I just wanted to explain that to you. So with this, Wes, how would you like to start. Now you've been

- your here as an invited guest. You volunteered to come at an earlier date. Would you like to make a presentation first and questions after or how?

**Wes MacAleer (PC):** I'd like to make a statement.

**Ron MacKinley (L) (Chair):** Go ahead.

**Wes MacAleer (PC):** Thank you, Mr. Chairman and committee members. I want to make note of the fact that earlier I had made a presentation which I hoped everyone has a copy of, it's January 17<sup>th</sup> and this sort of five-page perspective was on the background that I had experience with respect to this issue and in the interest of accountability and transparency, I wrote it out and I hope that everyone got a copy. And what I'm about to say now is in addition to that.

I would hope that - I won't be too repetitive but I find myself going over this issue and seeing it from somewhat of a different perspective but I must say that I am limited in what I can say on this issue and I try not to be boring but on the other hand I do want to explain that there were perspectives on this issue that are worth reading into the public record.

So my observations here this morning will take three forms. I want to review the fish processing industry in the period prior to November 1998 which is when the current government came into government and I became the Minister of Economic Development and Tourism -

**Richard Brown (L):** 1996, 96.

**Wes MacAleer (PC):** Sorry, well prior to November 1998 is when the Polar deal was signed. But we did come into government in November of 1996. I want to deal with some of the reasons that I saw as being acceptable for the formation of Polar Foods International Incorporated and I want to conclude by describing some of the marketing conditions that existed which caused the collapse of this company.

I apologize for not supplying to the members copies of this because I did write it over the weekend when I realized that I was going to have to appear and it started out in note fashion and I'm going to editorialize but essentially I want to read this into the record.

Mr. Chairman, I would point out that an understanding of the industry, its production and marketing challenges is needed to appreciate the reasons for the failure of Polar Foods International Incorporated.

Fish and seafood processing is an important part of the fisheries and the economy of Prince Edward Island. A viable and self sustainable processing sector is there for a very important to this province.

Now the fisheries on Prince Edward Island involves many species. But historically the significant species have been comprised of cod, hake, flounder, red fish, herring, mackerel, and lobster and changes to groundfish quotas being allowed starting in 1994 and subsequent years has resulted in a significant decrease in landings. Pelagic stocks continue to remain health with mackerel and herring being the key species. Crustacean landings, namely lobster, have shown an increase in recent years and stabilized at around 20 million pounds. Lobster continues to be the backbone of the processing industry on Prince Edward Island and it accounts for about 70 per cent of the total value of fish landings.

Lobsters are fished and landed during the spring and fall seasons of the year. Eighty per cent of the annual landings occur during the spring fisheries, during the months of May and June. It is also noted that daily landings vary significantly within each season and that the majority of landings are made within a few weeks of the respective seasons. It is the peak landings which are important in determining the relative relationship of supply to processing capacity.

Now in 1995, 1996 prior to our forming a government. I was told that 30 fish processing facilities existed on P. E. I. But the 23 plants process 95 per cent of the total lobster landings and graded an 80 per cent of the pelagic and groundfish species.

These processing facilities were in relatively isolated communities where alternative employment to that offered by the fishing sector was difficult to find. Persons in these communities have lived there most of their lives and had worked in only the fishing sector. Peak employment for the processing plants total approximately 2,500 persons and was directly related to the processing periods of lobster. The majority of the plants were

seasonal operations and were closed or operating at reduced levels during the period from November to April.

All lobster was a primarily processed species. Approximately 70 per cent of the plants were routinely involved in processing other species in addition to lobster. Primary products produced included lobster, which was cooked whole in a brine. There was cold pack lobster, raw tails and hot packed, the unfrozen lobster. In the groundfish area, there was fresh and frozen round fillets or chicken haddie. In the pelagic, there was fresh and frozen round in fillet form.

Main markets for PEI processed groundfish and pelagic products is in the United States, mainly in the Boston market. The market for processed lobster products is more global. Lobster products are primarily exported to the United States, Europe and Japan. Knowing where and to whom lobster was and is being marketed is essential to understanding the challenges faced by Polar Foods International Incorporated. In the United States most lobster meat is used in restaurants and is not normally used as a lost leader.

In 1996, a growing trend in the canned lobster meat market was that US buyers who used to purchase their annual requirements in the fall and hold it in inventory, were not doing so. They were increasingly transferring this inventory holding cost to the producers and only buying the requirements when needed.

The European lobster market was mainly located in France. In France, the most important lobster product is lobster in the brine. It is sold in retail outlets. Most of this market is pre Christmas and is often used as a lost leader to attract customers to a retail chain.

Elsewhere in western Europe, the most common product is also lobster in the brine, however, it tended to be sold in supermarkets at profitable levels.

The Japanese market accepted lobster boiled in the brine or vacuum packed. The taste was for smaller lobsters to be sold in restaurants and hotels catering to weddings and other special occasion meals. In Japan the Canadian lobster was forced to compete with the spiny lobster tail, which was fished in warmer waters such as the

coast of Cuba.

Although many factors can influence processing capacity. The theoretical capacity for each product produced at each facility was quantified based on the limiting factor of the processing method used. Limiting factors including items such as cookers, freezers and cutting stations. Where a processor could produce more than one product simultaneously, it was assumed that the processor would produce the product which would optimize capacity utilization.

In the 1994 - 97 period, processing industry studies indicated that PEI plant capacity utilization was low, and that has been noted by a number of you on the committee, and that this capacity in the industry should be solved by some form of government intervention. Now this observation needs some clarification because governments had always been involved in the fishery at least from the records that I've been able to determine.

Now I have to explain that the fishing industry has two distinct participants. There's the fishers which are the fishermen and the processors and the processors being the buyers, the processors themselves and the exporters and each set of participants has had a considerable relationship with governments, both federal and provincial. An analysis of this relationship can explain at least in part the reasons for the processing sector of the fishing industry being in economic difficulty in 1996.

Under the *BNA Act* as well as the new *Canada Act*, the Constitution, the responsibility for matters of the fishing industry is divided between federal and provincial jurisdictions. The fish in the sea as well as the fishers up until the fish comes to the wharf is within the sole mandate of the federal government and the federal minister of fisheries. The activities of the processing sector of the fishery is a matter of provincial concern in all its aspects.

The beginning of the 1970's saw the introduction of a number of measures to control the resource harvest rates of a number of species but particularly lobster. Voluntary trap limits by fishermen were initiated in an effort to control efficiency and costs. The introduction of federal fisheries imposed management measures began in earnest at that time. A limited entry license

policy was begun. Entry into the lobster fishery was closed to new entrants and entry from this point on could only be obtained by buying out an existing license holder. In affect, harvest capacity was capped by licensing policy changes and by the evolution of federally mandated trap limits.

Now this change was a good move for the fishers. They became economically stronger, less dependent on the processors for financial support. Fishers began owning their vessels and equipment instead of renting or leasing them from the processors. In a form of the bonus system profit sharing, the processor became - this formed the bonus system became an industry wide arrangement between plants and fishers and there was a greater sharing of wealth in the communities. They became stronger and generally there was a rise in the standard of living. So what I'm pointing out here is that the Department of Fisheries and Oceans had a policy and from this person's perspective that policy strengthened the fishers and the fishing community.

Okay well on the one hand the Department of Fisheries and Oceans was regulating and limiting the expansionary forces in the harvest sector of the fishery and in 1970's saw another federal initiative target Atlantic Canada for community development and expansion. Now these initiatives came over a 25 plus year time period and included programs under the umbrella called The Economic Development Plan. Under the names of DREE, DRI, ACOA *et cetera*. And much of this activity if not all in some cases was financed by federal dollars. So between 1970 and 1995, we had two federal initiatives influencing economic growth in Atlantic Canada and both impact on the fishery sector.

They lacked coordination and when the results of these programs are examined a conflict exists. From DREE, DRI and ACOA, federal monies flowed into supporting the fish processing sector. The processing plants, while elementary in their process technology and technics, provided on average 26 plus weeks of employment to the staff. Based on the balance between harvest and process capacity, a partnership relationship was enjoyed between fishers and their partner plants to whom they supplied raw materials in a predictable fashion.

But focus on expanding the fish processing sector was seen as a means to sustain communities. However this whole initiative was flawed in its design because a number of fish processing facilities grew in number. How? Most of the money went to purchase new physical assets in new locations. Assets were preferred because they could be photographed, assets that DREE or DRI side could be hung on, were supported. And this partly explains why at one point on PEI, we had 80 locations capable of processing fish and this wasn't peculiar to PEI. For example, in New Brunswick there were 30 locations and Newfoundland, it was even more extensive.

Now you have to understand that the needs of the industry were not in physical assets. With all this new equipment and capacity, the federal plan failed to recognize or address the question of where the additional raw material, namely fish, necessary to fuel the expansion would come from. In addition, it should be noted that the needs of the industry lie in the area of transformation of product capability, marketing systems, modern packaging and presentation, information systems, valued-added products, better production methods, management and staff training, enterprise financing. All of these intrinsic needs were not related to more processing locations with new buildings and equipment.

So for over 25 years - 1970 to 1995 - the federal government economic intervention encouraged expansion of one side of the fishing sector processing and simultaneously regulated the contraction of the other side, the source of the raw materials needed to ensure the viability of the processing sector. Now this could be described as a giant catch-22 situation but I can tell you that for most people there was confusion and frustration. And this was the base, the underlining causes of the economically precarious state of the Prince Edward Island lobster and seafood processing sector that we found that we assumed the government in 1996.

Now the seafood sector you would say was in a quandary, the example that I've just given you. While it is critical of the federal government, there was a lot of people benefitted from the initiatives taken. But it shows that here was a situation in which two federal initiatives, two federal departments were operating in a silo structure. There was a lack of overall coordination in their

programs. The programs were band-aid solutions to meet short term needs and they were delivering the wrong kind of resources, the requirements of the industry.

In 1994 and for three years following the federal government community economic - in 1994 and for three years following, federal government community economic support programs of the fishing sector declined in proportion to the extent of the money allocated to the federal/provincial agreements for economic development. So when I became the Minister of Economic Development and Tourism, what we found was that the federal/provincial agreements for economic cooperation were on a decline.

As a result, there was a decrease in terms of the monies that were going into a number of sectors including the fishing sector. And with the declining federal government support by 1995, the PEI processors were left to deal with the provincial government, compete among themselves for raw materials, and supply similar products to similar market places. And to gain a competitive advantage and survive the processor was required to invest in new product lines, larger and more up to date plant equipment and increase efficiency.

Did they do that? Were they doing that?

Now to fill the void left by the absence of federal financial assistance, the requirement was answered by the provincial governments at the time. For example, \$19 million was provided to a Cooperative Royal Star Fisheries in Tignish. Funds were provided to the North Lake Cooperative in North Lake. There was a \$8 million processing plant built in Souris. Most of it was federal money.

In 1995, the Premier Callbeck led government provided a \$11.3 million in forms of grants to the precessing sector. I'm not being critical of that, I'm just saying that those are facts. But the overriding characteristic of all these monies was that the monies were given to individual companies. So you sustained that too many companies that were already in the business and this overcapacity continued to exist and you have to understand and explain what this overcapacity issue really meant.

In 1995, the daily processing capacity for lobsters on PEI was approximately 617,300 pounds of raw

material. Now apply this capacity to the assumed season of 100 days and you would need to yield an annual capacity of 61,730,000 pounds. Don't want to snow you with statistics, but I want to point out that when you start assessing capacity, it's a little more complex than just saying you know these plants had nothing to do.

If you base it on the actual purchases for 1994 of 13,596,000 pounds, the theoretical capacity and I emphasize the theoretical capacity unitization for annual lobsters season was just 22 per cent. And that assumed an 80/20 split in landings between spring and fall season. Now if you took the landings that were processed by off island processors you could increase the plant capacity utilization to or use to 45.7 per cent in the spring and another 1.4 per cent in the fall. But when you look at these plants in terms of their total capacity utilization, the utilization had to be capable of sustaining the fishery during a very short window, very short time period. And as a result, when the processors bought equipment and brought in staff, it had to be for that very narrow window when all of the landings came in at once.

The processors in order to develop their plants to increase the utilization, there was a need to have a multi species processing program and one of the areas in which these plants sought to increase was crab, for example and the capacity utilization rates for crab were determined to be 35 per cent for the sector if the industry was involved in processing rock and snow crabs. The quota of these species granted to Island fishers and was and continues to be relatively small.

In 1994. it was estimated that the pelagic and groundfish species would add 21 per cent and 10.5 per cent respectively to the capacity utilization of a processing plant. These low figures were partially due to the assumed fishing seasons of 130 days for groundfish and 100 days for pelagic.

Now here's the challenge. To process a variety of species the processor had to invest in larger and more current and different equipment. Each species of fish processed required a particular line of equipment. In processing lobster, the key equipment was the cooker. In processing groundfish products, there was a need for cookers, plate feeders, cutting stations and glass freezers. For products produced from pelagic species, the main new equipment was the glass freezer.

To be noted is that low utilization rates are not necessarily bad for plant owners as long as the plants are profitable and providing reasonable rates of returns on investment. But this condition was not happening, particularly in the lobster processing species and there were a number of reasons for that.

In 1996 it was viewed that processors were aggressive and were making an effort to compete. An investment in modernization, product diversification and increased efficiency was being made by several or more plants to become more viable. Some processors diversified to new species and product lines to mix the lobster products. New products such as raw tails and new packaging such as vac-packs were being introduced. Some processors were looking at other species particularly underutilized species like bar clams, capelin, and dogfish as a means to increase plant utilization and to replace depleted traditional raw material sources.

When our government was formed in 1996, processors were found to be trying to be innovative and competitive. Another example of this innovation was that several plants had invested in new production equipment involving nitrogen freezing and steam cooking. But even with those efforts, economic survival was falling short of success. Why? Well the main limitation was that Island processes were competing among themselves and with off Island buyers for a limited supply of lobsters and to be noted, other species as well.

For example in 1995, New Brunswick had 30 plants involved in lobster processing. They relied partially on lobster landed in Prince Edward Island to meet the raw material needs. This dockside competition from out-of-province buyers was seen as increasing the shore price of raw material. On the other end of the processing line, processors were competing with themselves to supply similar products to similar marketplaces.

In a situation where many processors were trying to remain viable, competition within the industry drives the consumer price down. A high price existed at the wharf, a low price at the consumer end. The processor was caught in the middle with inventory paid too much for and a consumer not

willing to pay an adjusted amount to compensate for this higher price for the product at the wharf and an increasing cost of processing. A large number of processors expressed frustration and wanted some form of government intervention in the sector.

Consensus among island processors was that increased regulation of the dockside buying activity was essential to bring stability particularly to the lobster industry. Some means of regulating lobster buying especially for canners, by out of province buyer was mentioned repeatedly.

PEI as well as New Brunswick maintains and continues to maintain an open door policy to buyers and buyer licensing. On the one hand, multiple buyers ensure that a competitive price is maintained at the wharf for the raw material. On the other hand, they are seen as people who in many cases obtain raw material and ransom it to the processors. The processors would say that the buyer gets paid handsomely, makes a far greater margin than enjoyed by the processor and that this segment of the industry is an unnecessary one.

Profit in dollars made by the buyer is better shared by the fisher and the processor. Ban buyers from the wharf was a possible solution. In a similar way, the other solution in coping with an underutilized industry sector was to legislate, as in Newfoundland, that Island codfish species should be processed on the Island. With the declining margins and decreasing profits, processors found gaining supportive of a financial community increasingly difficult. Monies for capital expansion and lines of credit levels alike which were based on past ability to repay and past economic performance faced a downward spiral.

While the banking community was decreasing the availability of credit, the industry was facing an increasing demand to finance inventories because of a lower turnover ratios. As explained earlier, the consumer, large marketing entities like restaurant chains were requiring that the producer to carry on in an increasing amount of the product. Because they did not have the financial resources to maintain the inventory, some processors in desperation would dump product at below or far below realizable market value. The consequences of this move are easily understood, giving the previously explained fact of generic product production and commodity marketing based on

price, it is clear that the price reduction in dumping tactics reverberate throughout the export community, causing the price to be realigned to the level of the weakest plant offerings. More often than not, the weakest plant historically was the one being kept alive by the government for socio-economic and community reasons.

It was truly amazing that some processing plants continued to survive. It was a testimony of their steadfastness. Ninety per cent of the processing industry was cheaply apprised of an assembly of family-owned second and third generation processing facilities. The majority of the firms could be described as patriotically, hierarchies with one family member assuming the role of CEO and general manager.

Because of competition, endless cuts have been made to the business infrastructure of most firms which included reductions at the management, marketing and human relation staff. This resulted in a severe under delegation of management and other key strategic tasks because personnel were simply no longer available to delegate to and this condition existed industry wide.

It was difficult to describe the rationale for moves and maneuvers made by this sector. Seeing the way the operators made decisions, one would say it was a classic example of a micro managed system based on daily tasks and challenges which bore no relationship to an overall plan, a no systems approach. It is an environment in which there was no rules, no norms and no ability to plan strategically. The fear of the cost of change and indeed change itself was significant and an impeding factor.

In short, the economic condition of the Island fish processing industry in 1997 is summed up in the concluding observation of a 1997 report completed for Enterprise PEI by a chap by the name of Allan Baker and he said and I quote "the lobster processing sector on PEI as presently structured does not face an uncertain future. It faces a no future situation." and he goes on to say "that the processing sector left to its own demise will collapse."

So we entered the government in November of 96. We were elected to a platform of supporting communities and creating jobs. Representatives of the fish processing sector met the government

and they said they were closing the processing plants. Faced with that possibility - what was the most desirable alternative? Should we distance ourselves from the situation and allow it to occur a natural rationalization which would entail an end to the Island processing industry. With fewer island processors, off Island plants and their buyers would surely increase the purchasing of Island raw materials. If left to develop, it would mean that this product would be difficult - later to repatriate to Island processors.

One thing for sure - the time for decision making was short. In order to be effective, the decision of government intervention had to be made and implemented before the startup of the 1999 spring fishery.

The suggestion that the government should legislate restrictions on a licensing of buyers and the transport of raw product to off Island processors was not acceptable. Why? Legislation to restrict buying at the wharf would meet with the protest from the fishers because it would mean reduced competition. Retaliation from both neighbouring provinces, Nova Scotia and New Brunswick would have been a certainty, possibly against other Island products in the agriculture and meat sectors. Also such restrictions would have been contrary to the agreement on interprovincial trade and since the PEI economy is so dependent on exports to grow, fostering any form of trade restrictions would run contrary to the best interest of the Island as a whole.

Most of previous government financial assistance had been provided to those processors formed as cooperatives, Royal Star Fisheries in Tignish and the North Lake Cooperative in North Lake. Shortly after forming government, six to eight cooperative sectors representatives requested that the provincial government provide financial assistance to sustain their operations. A number of meetings were held and they confirmed what earlier studies have already said that the profitability of their sector was not acceptable and that they would be closing plants. This would entail a reduction in jobs in some communities and increased deficiency due to automation result and job decreases in the industry.

While the province was concerned about the economic impact that this closure would entail, the concern was not for the welfare of the owners of

the plants. But more important, what issue was a social responsibility being the loss of jobs in isolated communities where jobs prospects were scarce.

Depending on whether you view the problem as the bottle being half empty or half full, the opportunities related to this situation were significant. We had the marine resource, the fish, the trained labor, the know-how, if only those factors could be harnessed to work together to improve product marketing and market penetration. Why would we want to forsake what we already had and go and encourage other economic activities which might not be suitable to the Island culture and experience. Why couldn't we compete in an industry we knew better than any other area of the country?

Needed was to design a corporate structure and develop management practices to compete effectively in a rapidly changing global marketplace. The Island enterprise would be - an Island owned enterprise would be required to compete and the competition were three larger Atlantic operators. There was the Clouston Food Group, which was a division of Fisheries Products International. Orient, a major US company, a large marketer of lobster and Paturel Seafood Limited, a New Brunswick company.

Now the goals for a corporate structure would be to compete and in doing so would seek to grow its revenues and profit margins, improve marketing techniques, reduce unit production cost through plant utilization and increase throughput, invest in research and development of valued-added products and reduce selling and administer the overheads relative to sales volumes achieved.

Now how do you achieve this formation in the timeframe that we had available? You have to look at - was it worthwhile for government to get involved in this? Was there areas in which we thought that the industry would benefit - that the people of PEI would benefit. So we looked at the strengths of assembling a joint venture and at the time there was eight interested parties, there ended up being six Island processors that were prepared to work together. So they came forward and we began discussions. So what were the strengths that we saw that these people brought to the table.

At the time, we thought that the greatest strength was sought to be its people, the people that came forward. The six people, one from each of the participating companies would bring to the new company many years of experience in various aspects of the fish business and the marketplace. They had experience in both the domestic and the international marketplace with long established relationships critical to the success if we were to form a new enterprise.

Now by bringing together, the owners and managers of the predecessors companies to comprise the Board of Directors and the management of this new enterprise and by actively participating in the day-to-day operation of the enterprise, it was hoped that the most knowledgeable and skilled individuals in the business would provide their efforts in making this new company a success.

Now despite the financial difficulties of these individuals, they had survived and in some cases had prospered for many years in an industry which had always been characterized by resource and marketplace instability. By working together, these people within the context of a new company could better exercise the strengths they had as individuals and than combine with others could develop new and better capabilities which had escaped them in the past.

Now other strengths of bringing these people together were as follows: There would be an ability to stabilize the price of the product to the customer allowing the customer to meet a fundamental and user market demand that of price predictability and stability. Other strengths included the backing of appropriate financing to allow the company to make the required investment and deal with the inevitable volatility and change as a market evolves from commodity based to more and more valued added production.

In addition, the fact that lobster caught in this area is smaller than that of any other lobster in the world creating for the local industry generally and a new company in particular, size differentiation which is meaningful in a market where portion control is a key customer requirement.

Also there would be efficiencies which will come from the creation of a new company in terms of stable procurement, market driven production

planning and an improved distribution which would add to the company's competitive position. The formation of six individual sea processors entities into a single economic unit was seen to create opportunities which are as follows: Having a large and significant processor on the Island would provide industry leadership on Prince Edward Island thus strengthening the seafood processing industry, creating stability, predictability and appropriate alliances with distributors not able to be reached by smaller operators.

Because of a broader range of capacities, the larger companies could take a longer term view of the marketplace and create for itself any industry long term goals and objectives and have both the financial and professional capacity to invest in research and development to meet the marketplace demand for new products particularly in the deep frozen and convenience type.

A large company could create value added uses for some products beyond its consumption as a food such as in the medical field. And this company once firmly established in the marketplace would have the opportunity to accept finished product to market for other companies through third party marketing arrangements for other forms of strategic alliances.

Now a major issue in the formation of this new company has been this issue of personal guarantees. They were not obtained from the six key members who formed the new company. Why not? Now the matter has been discussed at length. When the six operators approached, well actually there was eight, but of the six operators that ended up forming this company, approached the provincial government for asking for support -they asked to be treated in a manner similar to that which had been received by the cooperatives fish processors.

Their argument was one of fairness. When the level and type of support provided to Royal Star Fisheries and North Lake and several other cooperators were noted, these corporate operators thought they were being discriminated against. When that argument was presented with respect to personal guarantees, it was observed that no personal guarantees had been obtained for financial assistance provided to the cooperatives.

In addition, historically no record was found to

indicate that a provincial or federal government had ever obtained a personal guarantee to secure monies loaned in the fishing sector. Now you add to that the reluctance of the six operators to join together in the first place and the need to act with a limited time frame to activate the deal. Personal guarantees, although asked for, were not considered to be a deal breaker if the initiative was to proceed.

Gaining their confidence, gaining the confidence of these six operators and breaking down the barriers of dozens of years of having each competed against and among one another took considerable persuasion. They were reluctant to trust each other and the government and that was the reason for the extensive work that was needed and provided by the firm MacPherson, Roche and Smith, an independent agency separate from each of the joining companies and government was required to whom financial and other personal information would be released.

At the time, the focus was on creating an organization which would be successful. While the business plan clearly outlines events and circumstances which would threaten and weaken the initiative, one had to be optimistic that the principles would be able to come together and sustain themselves.

Now I ceased to be the Minister of Economic Development and Tourism in July of 1998. At that point I became the Minister of Community and Cultural Affairs and later the Attorney General and I ceased to be in cabinet after the 2000 year election.

I would note that Polar Foods International did not make a profit after - sorry I would note that Polar Foods did make a profit after being in business for 18 months and did make sufficient monies to pay its shareholders money owed to them.

The collapse of Polar Foods International could be attributed to reasons about which I'm not aware. But in assessing that failure, one must consider the global marketplace and the events following January 2000. For five years from 1995 to the year 2000, the public marketplace, particularly in the United States, increased in value to new heights. Part of the reason for this increase was investment in a telecommunications sector, communication software and the need to provide duplicate

systems to offset the potential threat which came to be known as Y2K.

When January 2000 came and went and the threat to the worlds electronic systems did not materialize, investment in the public market began to decline slowly at first. By June 2001, the Dow Jones and the NASDAQ financial markets had declined 15 per cent and the future markets indicated it was going lower. But in the midst of this decline, two planes hit the World Trade Center and the impact of that happening on the financial markets of the world was significant. Ten days after the planes hit, the Dow Jones and NASDAQ markets hit their lowest level since 1929. The market lost \$30 trillion in value.

In New York, Boston, Washington, Chicago, and Dallas the aftermath of this reduction in wealth meant that fewer people were eating out. Fewer eating expensive meals which included lobster and if you add the devastation experienced in New York, fewer people were eating in restaurants in Manhattan. And the reduction in wealth worldwide influenced people all over the world. In Japan, London, Paris, Berlin, everywhere that lobster was sold people were eating less of it.

But we still had the Toronto market. We still could sell lobster in Calgary and we could still sell it in Montreal. Until a third wave hit in the form of SARS. No one was eating in restaurants for fear of catching the sickness. Add to these factors that fewer persons were traveling on cruise ships, another market for lobster and fish sales.

Now the irony of this story is that Polar Foods International Incorporated was formed because there was a need to acquire an efficient amount of raw product to meet market needs and in the final analysis, market conditions were such that the company had too much product and was unable to market its inventory in a timely manner.

I would conclude by explaining that if government of the day had not of taken this initiative ,it could of been blamed for doing nothing and that could of resulted in there being much less of an Island fish processing community to which Ocean Choice is currently joined and operating.

If government failed to act, a number of Island residents would of been without seasonal employment, would not of qualified for

Employment Insurance and may of sought financial assistance of Social Services, the cost of which are entirely of a provincial matter.

If half, just half of those individuals employed in the industry were all unemployed and I will say that out of the 2500 at least 300 were currently employed in the industry and you take and support those people for the length of time it would take to retrain them, you would have 300 of these people on social assistance at a \$1,000 a month and in 48 months it would of cost the government \$14 million. If you want to double that to \$28 million, whatever. It's a matter of opinion but the reality is the cost would of been extensive to the province.

Now I would point out that this issue can not be judged in terms of the failure of a single company because government has a broader responsibility, a social agenda, a need to protect its residents from the shocks created by this sickle nature of the private markets.

On PEI, government is big business. Sometimes it is the only protection residents have as a result of decisions made either the corporate to the public sector. The provincial government can not avoid providing leadership in this broader mandate. At times the resources needed to offset the threats to our islands security may be many times larger than that envisioned for an individual.

I would say that it's up to the political leadership to assess the appropriateness for what is needed and to act in any one time, in the best interest of many residents as possible. In the case of Polar Foods International Incorporated, the government of the day was attempting to protect a whole industry, jobs, and to maximize the benefit of a precarious marine resource for all Islanders. Thank you.

**Ron MacKinley (L) (Chair):** Thank you very much, Mr. MacAleer. Just before we start here, I have a quick question when it's in my mind. You alluded to SARS, you alluded to 911, I guess problem that was one -

**Richard Brown (L):** The crash to the marketplace.

**Ron MacKinley (L) (Chair):** -the crash to the marketplace that helped put Polar out of business. Is that what I assume that you correctly said?

**Wes MacAleer (PC):** Yes.

**Ron MacKinley (L) (Chair):** What.

**Wes MacAleer (PC):** Yes.

**Ron MacKinley (L) (Chair):** How did Royal Star and the co-ops keep going through that tremendous disaster we had in the world and the other plants in New Brunswick and Nova Scotia keep going and Newfoundland? Like they keep going. So how could you just say that it was just one company - this is a quick question.

**Wes MacAleer (PC):** I think you would have to ask Royal Star.

**Ron MacKinley (L) (Chair):** Or co-op? They kept going. The other companies kept going. Your company went broke. Now number two -

**Wes MacAleer (PC):** No, no it wasn't my company. It was a company created by government.

**Ron MacKinley (L) (Chair):** You. It was a company created by you? You are the one that led up to it but anyway I'm not going get into that argument. Another one here, you said - I might be stand to be corrected. Did you say the company was making money in the first 18 months of operation?

**Wes MacAleer (PC):** Well that's what the auditor said.

**Ron MacKinley (L) (Chair):** Well I got the auditor here. 1998 net income lost \$2.34 million, 1999 - \$1.564 million.

**Wes MacAleer (PC):** Yes, in the year 2000.

**Ron MacKinley (L) (Chair):** Well, the year 2000 is more than 18 months, but it's 199,000 declared.

**Richard Brown (L):** It's a lot of months.

**Ron MacKinley (L) (Chair):** Like they cleared \$199,000 the year 2000. Could be just a fellow with the books because if you go to 2001 they lost \$3.8 million. Something is not adding up, Mr. MacAleer.

**Wes MacAleer (PC):** Well we're just disputing the length of time.

**Ron MacKinley (L) (Chair):** Well you said they cleared a profit, but I don't - it doesn't look like they cleared - they didn't clear a profit in 1998. They didn't clear a profit in 1999, they lost over \$2.3 million in 1998, the year it was formed. They lost \$1.5 million they lost in 1999, they cleared \$199,000 in 2000. That's election year. Well you know what can happen in election year. That's when you were diddling out money. You probably made your bottom line look a little better and than the 2001 when the election got over, they lost \$3.8 - 3,359,000 and 7,465,000 so I mean it's just - that's what the auditor says.

**Richard Brown (L):** He's wrong.

**Ron MacKinley (L) (Chair):** So we'll start with Robert there with his hand up.

**Honourable Robert Ghiz (L):** Thank you very much and my first question had to do with your question that you so astutely asked. Osama bin Laden, NASDAQ, the Dow, Y2K, SARS, but my question had to do with larger companies. Did FPI, the Barry Group or Clearwater go under at that time?

**Wes MacAleer (PC):** Not to my knowledge, no.

**Honourable Robert Ghiz (L):** Okay, and I'm just wondering. Through everything that you talked about, the history that I think the honourable member from Charlottetown-Kings Square will bring up later on, most of it came from the Baker Report, which you might probably still listen to maybe some of the recommendations in there, but I'm just wondering even now, in hindsight, you don't seem to be thinking that the creation of Polar Foods was a mistake at all, so would you do the whole deal all over again?

**Wes MacAleer (PC):** Yes, I would.

**Honourable Robert Ghiz (L):** Okay. That's a good answer. Now I'm just wondering now. We lost \$31 million. Basically, we're now down to two out of the six plants, I believe, that Polar Foods was operating, but you would do the whole deal over again. We'll get back to that later on. I'm just wondering now. For the record, I'm looking for a couple of comments. You were minister from late

1996 until, I think you said, July 1998?

**Wes MacAleer (PC):** Yes, that's correct.

**Honourable Robert Ghiz (L):** And we know that a group of three processors first approached government in the summer of 1997, and we have that here from a written question in Question Period. You would acknowledge that? Yes?

**Wes MacAleer (PC):** If that's on the record, yes.

**Honourable Robert Ghiz (L):** It's on the record here.

**Wes MacAleer (PC):** Yeah.

**Honourable Robert Ghiz (L):** You have also publicly stated that the first meeting that you had with the processors on this issue was October 24, 1997. Does that ring a bell?

**Wes MacAleer (PC):** I can't -

**Honourable Robert Ghiz (L):** When was your first meeting then, according to your mind right now?

**Wes MacAleer (PC):** It would be in the fall of - I can't remember.

**Honourable Robert Ghiz (L):** Okay. Well, just - on May 21, 1998 - this was back when you were Minister of Development. Your memory was a little more clearer back then. You were asked a question on when you first met with the processors and you said: Mr. Speaker, I believe my first meeting with the processors was on October 24, 1997. So if you said that, most likely -

**Wes MacAleer (PC):** That was correct.

**Honourable Robert Ghiz (L):** That was correct. Now the processors came to government in the summer of 1997, and I'm just wondering, who were the processors first talking to in government if it wasn't you? Was it the Premier that they were first talking with?

**Wes MacAleer (PC):** I have no idea. I don't know who they met with. I would assume they would have met with a number of people in government.

**Honourable Robert Ghiz (L):** But they didn't meet

with the Minister of Development?

**Wes MacAleer (PC):** No, the first meetings that I had were later in the fall.

**Honourable Robert Ghiz (L):** Okay, so October 21, so clearly the information shows here that the first meetings, though, took place in June of 1997. Now you weren't at those meetings, so we can presume most likely that it was perhaps the Premier, the Premier's chief of staff. I don't know who else; maybe the Minister of Fisheries at the time, but he didn't really have control over any money, so you would have to presume that it probably would be the Premier's office. I'm wondering then, for your first meeting on October 24, 1997, who was it that directed you in government to have the meeting with the processors? Was it the Premier?

**Wes MacAleer (PC):** I have no idea. At the time, I would assume I was contacted by my deputy minister, who would have arranged the meeting.

**Honourable Robert Ghiz (L):** But there were meetings already going on in government, so you should have received some briefing notes: Here's the situation so far. If it was Peter McQuaid or the Premier, they've had these meetings. Now we'd like for you to sit down and see if you can work out a deal. You don't know who referred those meetings over to you?

**Wes MacAleer (PC):** No. I would assume it would be the regular channels within the office that would notify me that there was a need for me to attend a meeting, or that there was an issue.

**Honourable Robert Ghiz (L):** So you were not the first contact that the processors had with government?

**Wes MacAleer (PC):** I have no idea. I don't know who they were.

**Honourable Robert Ghiz (L):** Well, no, but I'm just asking you because your first meeting wasn't until October 24, you indicated, but yet in June of that year, the processors approached government, so you were not the first approach that the processors had.

**Wes MacAleer (PC):** The record would indicate that they were meeting with other people within

government.

**Honourable Robert Ghiz (L):** Okay. Thank you very much. Now I'm just wondering. In the original request, it says here: Three Kings County packers discuss the idea of merger amalgamation and approached government for professional and financial assistance, but one of the three backers was not interested in the idea and dropped out, and that's from June 1997.

Now we're still trying to figure out which two Kings County plants those were. Well, we have an idea that they were the two from the Premier's riding, but he, for some reason, refuses to answer that question. I'm just wondering, do you know which the first two plants were?

**Wes MacAleer (PC):** No. Which two plants were -

**Honourable Robert Ghiz (L):** First approached government in June 1997?

**Wes MacAleer (PC):** No, I wouldn't. I wouldn't know that.

**Honourable Robert Ghiz (L):** You don't know that?

**Wes MacAleer (PC):** No.

**Honourable Robert Ghiz (L):** Do you know if they were from the Premier's riding?

**Wes MacAleer (PC):** No. They could have been. I don't know. I don't know what that is referring to, your comment there.

**Honourable Robert Ghiz (L):** Okay. Now my question is in the June - sorry, in the October 24 meeting that you first had, which processors - who did you have that meeting with?

**Wes MacAleer (PC):** Well, there were a lot of people at that meeting.

**Honourable Robert Ghiz (L):** Was it one or two processors? Was it eight processors?

**Wes MacAleer (PC):** No, I would say that at that meeting, there were six, at least six processors, yeah.

**Honourable Robert Ghiz (L):** So the deal was put together by then. So what you're basically telling us now is - because originally two processors came to government from Kings County. Then you wanted eight involved in the deal. Now you're telling us the first meeting that you had with the processors, there was the six involved, so basically the deal was put together before you were even brought in.

**Wes MacAleer (PC):** I would say that my discussion on the matter started prior to that meeting.

**Honourable Robert Ghiz (L):** No, but you just said - now you're changing your story here. You just said: Mr. Speaker, I believe my first meeting with the processors was on October 24, 1997.

**Wes MacAleer (PC):** No, what you're trying to point out is that my deliberations on this started in October 1997.

**Honourable Robert Ghiz (L):** Yes.

**Wes MacAleer (PC):** With my first meeting with these people.

**Honourable Robert Ghiz (L):** Exactly.

**Wes MacAleer (PC):** We had a number of meetings departmentally with respect to the issue prior to that.

**Honourable Robert Ghiz (L):** So who were they meeting with? The processors?

**Wes MacAleer (PC):** Well, I don't know who they were meeting with, but you're -

**Honourable Robert Ghiz (L):** Well, they were meeting with government.

**Wes MacAleer (PC):** Well, I assume they were, yeah, but -

**Honourable Robert Ghiz (L):** But they weren't meeting with you.

**Wes MacAleer (PC):** They weren't meeting with me, no.

**Honourable Robert Ghiz (L):** No?

**Wes MacAleer (PC):** No.

**Honourable Robert Ghiz (L):** So they were meeting, most likely, with the Premier?

**Wes MacAleer (PC):** I don't know who they were meeting with. It was really - that's sort of an academic question at this point because I would be only interested in the subject as it impacted on what I was doing.

**Honourable Robert Ghiz (L):** Exactly, which was signing over the money.

**Wes MacAleer (PC):** Well, no. There was more to it than that. There was also the design of (Indistinct).

**Honourable Robert Ghiz (L):** Okay, so let's just go back to your first meeting on October 24. What happened at that meeting?

**Wes MacAleer (PC):** I assume that I met with these people and outlined what we thought was a plan for the formation of a new company in which they could be involved in.

**Honourable Robert Ghiz (L):** So that was with - so if you're saying, then, your first meeting was with the six processors, but there were obviously meetings with the two processors that first came to government.

Then you said that you tried to get eight of the processors involved in the deal, so someone from government had to have those meetings with the eight processors to try to get them involved and then your first meeting was with the six processors to sit down and hammer out the deal. Is that correct?

**Wes MacAleer (PC):** My first meeting with the six processors was in October of 1997.

**Honourable Robert Ghiz (L):** Yes, exactly, but there were obviously meetings taking place before that.

**Wes MacAleer (PC):** Yes.

**Honourable Robert Ghiz (L):** That you were not involved in.

**Wes MacAleer (PC):** That I personally did not attend, yes.

**Honourable Robert Ghiz (L):** Okay. Now let's go to this meeting on October 24. Of the six companies that eventually became Polar, which ones were in the most financial difficulty at that time?

**Wes MacAleer (PC):** I don't think that was a factor that I was interested in.

**Honourable Robert Ghiz (L):** That was not a fact that you were interested in?

**Wes MacAleer (PC):** No.

**Honourable Robert Ghiz (L):** Interesting answer. I want to go now and discuss prior to you being elected - because you gave some interesting comments in the House and you've stated publicly that you began having meetings with processing companies and lobster processing companies on Prince Edward Island in January 1996. Does that ring a bell?

**Wes MacAleer (PC):** Prior to coming into government, we had the opportunity, as potential politicians, to meet with a number of industry sectors, and that we had met with - I personally had met with a number of the processors over the period.

**Honourable Robert Ghiz (L):** Now that was before you announced your candidacy for the Tory leadership?

**Wes MacAleer (PC):** No, it was during the leadership.

**Honourable Robert Ghiz (L):** Oh, okay. Now which processors -

**Wes MacAleer (PC):** And following the leadership.

**Honourable Robert Ghiz (L):** Okay, which processors did you meet with beginning in January of 1996?

**Wes MacAleer (PC):** I had met with Mr. MacKay - Milton MacKay. I met with a representative from Royal Star, a manager. I can't remember some of them.

**Honourable Robert Ghiz (L):** Okay. Well, Royal Star wasn't looking to merge at that time. Was MacKay talking to you then about the problems that they were having and they were looking for (Indistinct)?

**Wes MacAleer (PC):** No. At the time, we weren't talking about the problems in the industry, just simply identifying how they operated and their involvement in the community.

**Honourable Robert Ghiz (L):** Okay, now these were meetings that took place, I understand, starting in January 1996 up until basically election time, which would have been the following November, and I'm just wondering in any of these meetings, you were also on a committee - and I'm just going to read - I'm just curious about this committee, if you'll just give me one second here:

"Mr. Speaker, as I recall, which I reported in the House, I met the fish processors as early as the spring of 1996, during which time, we were exploring the possibility of entering an election. That was my first meeting with the processors, but we continued to meet the same people we met later throughout the year and into 1997."

So that's you talking about that. Then it says: I became involved in talking to fish processors about six to seven months before I became involved in the election process. I headed up a committee between January through August of 1996 to examine the state of business on Prince Edward Island, and the fish processing sector was a part of this. As a result, I have met with a number of fish processors at that time.

That committee, was that a government committee or was that a leadership committee or was that a Tory party committee?

**Wes MacAleer (PC):** That was probably a Tory party committee.

**Honourable Robert Ghiz (L):** A Tory party committee. Now would you have attended these meetings with Premier - or I guess he was Pat Binns at the time, the leader of the Conservative Party?

**Wes MacAleer (PC):** No.

**Honourable Robert Ghiz (L):** Do you know if he

attended any of these meetings?

**Wes MacAleer (PC):** No, he wouldn't have attended any of those meetings.

**Honourable Robert Ghiz (L):** He wouldn't have been involved in any of those meetings?

**Wes MacAleer (PC):** No.

**Honourable Robert Ghiz (L):** Okay. How do you recall that he wasn't at any of the meetings, but yet you can't recall -

**Richard Brown (L):** I think you just told him nobody answered.

**Honourable Robert Ghiz (L):** Oh, but you can't recall who was at the meetings when they asked you which fish processors were at the meetings?

**Wes MacAleer (PC):** Well, I just remember that we were canvassing the community for suggestions on how we might improve the economy of Prince Edward Island, and I was chairing the committee.

**Honourable Robert Ghiz (L):** Now was there any talk of amalgamation back at that point?

**Wes MacAleer (PC):** No, there wasn't.

**Honourable Robert Ghiz (L):** There wasn't? Did any of the six original shareholders support you in your leadership bid in 1996?

**Wes MacAleer (PC):** Well, I'd like to think that they all did, but I wouldn't have a clue. I wouldn't know.

**Honourable Robert Ghiz (L):** You wouldn't know?

**Wes MacAleer (PC):** No.

**Honourable Robert Ghiz (L):** Do you know if any of them, perhaps, didn't support you, but supported the Premier in his leadership?

**Wes MacAleer (PC):** I wouldn't know that as well.

**Honourable Robert Ghiz (L):** You wouldn't know, either. Okay, and as you've said, there was no discussion of amalgamation back at that point, so

were they telling you - and this is in the January to the August period of 1996 - that everything in the lobster processing sector was fine?

**Wes MacAleer (PC):** They were indicating that there were problems, that there were major problems in marketing. They indicated there was a problem in terms of acquisition, that they were being competed with by off-Island processors, and as my remarks indicated, they were suggesting that we might restrict the number of buyers on the wharf and that we should take steps to limit the amount that was being processed off-Island.

**Honourable Robert Ghiz (L):** Limit the amount that was being processed off-Island?

**Wes MacAleer (PC):** Yes.

**Honourable Robert Ghiz (L):** And at that time, did they talk to you about major financial problems that they were having?

**Wes MacAleer (PC):** Well, the discussion evolved around the amount of support that they were receiving from the banking community, which wasn't unique to the fishery sector. The banking community was decreasing its involvement in the business on PEI, starting I don't know when, but it was certainly a major factor in 1996 in terms of the amount of support that they were - all sectors were receiving.

**Honourable Robert Ghiz (L):** Did they talk to you at all about overcapacity at the time?

**Wes MacAleer (PC):** About their plants being underutilized? That was a factor. They (Indistinct).

**Honourable Robert Ghiz (L):** Well, saying that they came to you and they said: Listen, we've all got these fish plants.

**Wes MacAleer (PC):** Yeah, they -

**Honourable Robert Ghiz (L):** There's 27, I think you said, lobster processing plants?

**Wes MacAleer (PC):** There were 30 licenses.

**Honourable Robert Ghiz (L):** Thirty across Prince Edward Island?

**Wes MacAleer (PC):** Yes.

**Honourable Robert Ghiz (L):** We don't have enough lobster for it.

**Wes MacAleer (PC):** The focus seemed to be on acquiring quotas of other species, that by having the plants operate in a very narrow time frame did not justify the amount of investment that they had.

**Honourable Robert Ghiz (L):** You don't control the quota, though?

**Wes MacAleer (PC):** That by obtaining the access to other species, they could justify keeping their plants operating at a higher efficiency.

**Honourable Robert Ghiz (L):** So basically now what we're experiencing is that between - in 1996, prior to the election, yourself on a committee - and also during your leadership work - you've had meetings with lobster processors in the province where you started to discover that there were some major problems with it.

Moving into after the election, which was in November 1996, then your first meeting was not for basically a year after that, until you sat down with - you said six processors - but we know in the meantime that - well, first three processors from Kings County came to the government. Then there were two from Kings County that came to the government saying that they're in trouble. They need help.

Then government decided that they wanted to have eight lobster processing plants involved in Polar Foods, but all of this took place before any initial meetings with the Minister of Development at the time to bring you in to help you close the deal. So I'm wondering who was dealing with the lobster processors before your October 24 meeting? Was it the Premier?

**Wes MacAleer (PC):** It could have been. I don't know.

**Honourable Robert Ghiz (L):** So you and the Premier never had any discussions on Polar Foods? Is that what you're telling me before the original deal was signed? Because I've seen the camera footage: There was you and the Premier and it was lovey-dovey and -

**Wes MacAleer (PC):** No, I would say that we had at least several meetings in which the Premier and I were in attendance.

**Honourable Robert Ghiz (L):** Several meetings that were. . .

**Wes MacAleer (PC):** Yes, private meetings with fish processors, who indicated that they had financial problems or financial difficulties and they'd be . . .

**Honourable Robert Ghiz (L):** So all of those meetings, did they take place before your meeting of October 24 or after that?

**Wes MacAleer (PC):** Prior.

**Honourable Robert Ghiz (L):** Oh, prior? But you said your first meeting with the lobster processors wasn't until October 1997?

**Wes MacAleer (PC):** No, I said that when we were involved with developing a plan on this, I was involved in the committee which toured the plants and discussed it with (Indistinct).

**Honourable Robert Ghiz (L):** No, no, no. We're talking now after the election.

**Wes MacAleer (PC):** Following the election, there was at least one or two meetings in which I was in attendance.

**Honourable Robert Ghiz (L):** Before the October 24 meeting?

**Wes MacAleer (PC):** Yes.

**Honourable Robert Ghiz (L):** Well, why didn't you say then: Mr. Speaker, I believe my first meeting with the processors was on October 24, 1997?

**Wes MacAleer (PC):** With the six processors that would form the company.

**Honourable Robert Ghiz (L):** Oh, with the six processors. So you were at meetings with other processors before that?

**Wes MacAleer (PC):** I don't even remember who was at those meetings that we had.

**Honourable Robert Ghiz (L):** But you've indicated now that there were a lot of meetings. You and the Premier were there working on the deal.

**Wes MacAleer (PC):** No, I'm just saying that he was in attendance in at least one meeting that I can remember.

**Honourable Robert Ghiz (L):** Okay. Who, then, pushed the deal on to you for this October 24 meeting?

**Wes MacAleer (PC):** I don't think I was pushed.

**Honourable Robert Ghiz (L):** Well, someone would have to say (Indistinct).

**Wes MacAleer (PC):** We were told - the issue was being handled by two departments: The Department of Fisheries and by Enterprise PEI. And from the perspective of Enterprise PEI, we had staff people working on the issue, and the effort, I felt, was worth putting our resources to work, so we assigned people to handle this issue.

**Honourable Robert Ghiz (L):** Okay, here's where I just need a little clarification: In June 1997, the three processors - let's call them two because one dropped out - two from Kings County came to government looking for a deal.

Then you said you tried to get eight processors involved in forming Polar Foods, but that you had your first meeting with the processors on October 24, 1997, and that was with basically - what you just said was the six processors who eventually went on to form Polar Foods. Who was conducting the meetings between June 1997 and your October 24 meeting of 1997?

**Wes MacAleer (PC):** I would assume the staff at BDI that were assigned to handle this issue.

**Honourable Robert Ghiz (L):** So they were working on a deal, the staff at BDI?

**Wes MacAleer (PC):** Yes?

**Honourable Robert Ghiz (L):** And you don't know if, for example, these seafood processors that were meeting with you, and perhaps meeting with the Premier during the leadership and in the lead-

up to the election, they didn't have their first contact with you until October 24, 1997?

**Wes MacAleer (PC):** Well, I assume that we defined an issue here that had to be dealt with and that the project was assigned to staff at Business Development, and we took a leadership role here.

**Honourable Robert Ghiz (L):** Let's just move on here, and I just want to talk a little bit about the Auditor's Report at the beginning, and you talk a lot in here - or the Auditor talks about government's risk was high from the beginning. The owners bore some risk when they transferred in their planned assets, but without personal guarantees, their risk was limited.

The auditor also goes on to say: government did not review the financial statements of the company, so I've got two questions for you. First, who told you that the review of the companies was unnecessary to look at their financial statements? And second, who decided that personal guarantees were not needed?

**Wes MacAleer (PC):** Well, I don't think anybody told me that. You're asking me whether or not, in my opinion, the correct procedure was taken with respect to the handling of the matter.

**Honourable Robert Ghiz (L):** No, I didn't say anything about correct procedure.

**Wes MacAleer (PC):** You're asking me did somebody tell me this or tell me that. I mean, I'm not going to remember what somebody said four or five years ago and who said it, but I can tell you that the reasoning behind my position on the matter, so if that's what you want, I can answer it, but if you're going to ask me who told me a particular statement in 1998, I can't answer that.

**Honourable Robert Ghiz (L):** Well, I want to know this: Why did you not review the financial statements of the company?

**Wes MacAleer (PC):** Yes. Well, I think that's a reasonable question. I didn't think it made any difference whether we reviewed the financial statements of the company because we weren't interested in acquiring the shares of the company, and as a result, we had to have something that was more concrete, something we could put our hands on, and that's why it was agreed that

instead of buying the companies themselves that we would buy their assets, the assets being tangible, definable, that could be valued, and that they could be useful in being placed in the company, this new company.

We weren't interested in assuming the liabilities of these companies. We weren't interested in buying their goodwill. We were interested in bringing to the table people that could create a new entity which would be stronger than the parts that formed it, so that's why the approach was taken to hire an independent appraiser to do an assessment on the assets, and it was the assets that were rolled into this new company.

Personal guarantees, I think I've already explained that in my notes that there was no history of personal guarantees being required. The shareholders didn't want to give personal guarantees. Some of these people were reasonably well-off. I assume they didn't want to put their personal assets on the line.

**Honourable Robert Ghiz (L):** So that means (Indistinct).

**Wes MacAleer (PC):** And they wanted to be treated in the same fashion as those that had been given assistance in the co-operatives. Now if you're saying, should we have pushed the deal and made it the most important issue. That's a matter of opinion.

We had a time frame we had to meet, and that time frame was the 1990 fishing season. It took a considerable period of time to make it possible for us to sit down and discuss the matter with these people because they had always been competitors.

They didn't trust one another, and they didn't trust government, and that's why we had to hire on an independent accounting firm to deal with them, and that's why we ended up having to deal with an independent appraiser. We had, at all times, this problem of bringing the concept to fruition. It was not accepted initially, and it was actually foreign to some of these people.

**Honourable Robert Ghiz (L):** Now you just said that these shareholders didn't trust government and they didn't trust each other. Well, how can a logical individual expect them to be able to form a

successful company, then? Just with that statement you just made?

**Wes MacAleer (PC):** It was going to be one of the factors which would determine whether or not the company could be successful was would these people co-operate with one another to form this new entity.

**Honourable Robert Ghiz (L):** But you just said they didn't trust each other.

**Wes MacAleer (PC):** That was the characteristic that seemed to be part of the discussions, yes.

**Honourable Robert Ghiz (L):** So why would you then risk taxpayers' money into a deal that you basically knew couldn't work from the beginning?

**Wes MacAleer (PC):** Well, I think I've outlined the strengths that we thought could be achieved by having these people work together, and by taking this approach as opposed to previous approaches of government, which was to support individual companies and had not succeeded, that this new approach stood an opportunity for success, and it was worth the gamble.

**Honourable Robert Ghiz (L):** So you think that forming successful companies, you can do that with shareholders and partners that don't trust each other is what you're saying and don't trust government.

**Wes MacAleer (PC):** In personal experience I had, it had worked.

**Honourable Robert Ghiz (L):** Okay, okay.

**Wes MacAleer (PC):** And I thought that by having, applying that concept in this case that it just might work.

**Honourable Robert Ghiz (L):** The problem is here that what you were risking was taxpayers' dollars and at the end of the day, this is a 70 page scathing report on your government's performance at the time - and it's just not attributed to you - the mistakes continue throughout the whole four or five or six years that Polar Foods was in operation. The Auditor General points it out here page after page of this 70 page report but it was you at the beginning who put taxpayers' dollars at risk and you're right. You thought back then that there was

no risk and I've got a quote here, " Our arrangement with Polar International was entirely businesslike. We expect to recover all the monies that we invest in this particular enterprise".

So you're right. You did go into this very confident but you went into this very confident by basically handing over cash to shareholders, letting them still own their companies and not put up any of their personal guarantees. And at the time, the partners were the shareholders in government and you said that the shareholders didn't trust the government. The shareholders didn't trust each other but yet you still expected this whole operation to work and you would do it all over again. I find it quite amazing that someone can sit here and not have the ability to say sorry, I made a mistake.

**Wes MacAleer (PC):** We did not invest in this proposition for it to fail. We did not risk taxpayers' money with the idea that we weren't going to achieve the objectives that we set out. Anybody in their right mind would not do that. Because we took a different tack, because we took a different approach was something that was not new to my own experience and the hopes that we had were in the short term, probably realizable but in the long term, they were not. Nobody anticipated the global market conditions in 2000 and 2001.

**Honourable Robert Ghiz (L):** Yeah, but FPI and all, Clearwater and all those other companies didn't go under either so I'm tired of those excuses.

**Wes MacAleer (PC):** Well, maybe there were other reasons why this company . . .

**Honourable Robert Ghiz (L):** There were and I'll attribute it to it and I'll agree with that but you can't just pick, point that specific area and say that's why it went under.

**Wes MacAleer (PC):** No, no, and I phrase my remarks by saying that there may be other factors of which I'm not aware and did we anticipate those? Probably not. But in the beginning, this idea was accepted by those who were most important to the arrangement, which was the six participants who brought their assets to the table and their reputations and said that they would try to work together. The fact that they did not succeed is attributed to a number of reasons.

**Honourable Robert Ghiz (L):** Right from the beginning, here's my question, the six processors, did they want to work together or was there perhaps a one, two, or three that were in a clique together and you had to drag some other ones in?

**Wes MacAleer (PC):** I think there were some that were more reluctant than others to participate. I think there were others that got along better with one another. What was important was that the mix of talent and skill was present in the company that would provide a success and that's why it was important that all six became a part of this and we particularly wanted the Souris plant to be included because it was the newest facility.

**Honourable Robert Ghiz (L):** Yes, that was the (Indistinct) .

**Wes MacAleer (PC):** Yeah.

**Honourable Robert Ghiz (L):** But you're talking now you had a board table. You had six people sitting around the board table. You had a major shareholder that wasn't sitting around the board table and that was the government and none of them trusted each other according to your statements.

**Wes MacAleer (PC):** Mmhm.

**Honourable Robert Ghiz (L):** How could you expect it to succeed?

**Wes MacAleer (PC):** Well, it was a challenge and that's why that meeting in October of '97 was so important and that's why it stands out. When I spoke at that meeting, I expressed the fact that we were going to invest with these people and that our expectations were that they would carry on their prodiciary responsibilities and also that we were depending on them to lead an industry and that's why this meeting, that meeting stood out in terms because it was at a point when government had to decide and these individuals had to decide were we going to go ahead with the deal. By that time, they had received an outline, at least, of what was required to make this happen.

**Honourable Robert Ghiz (L):** This was a very large deal for the people of Prince Edward Island and it probably took a lot of work on your part, on the Premier's part to put this deal together and it was going to have to be monitored throughout the

whole process. And what I'm wondering now is, within four months, you were no longer Minister of Development of this deal being signed and I'm wondering. Did you ask the Premier, can you please move me from this department or did the Premier say I think I'm going to move Wes MacAleer from this department?

**Wes MacAleer (PC):** Well, as you know, Cabinet positions and all appointments are made at the decision by the Premier.

**Honourable Robert Ghiz (L):** Yeah but sometimes you can ask and say I no longer like my department. Can you put me somewhere else? Did you do that?

**Wes MacAleer (PC):** No.

**Honourable Robert Ghiz (L):** Okay. So you were asked to leave.

**Wes MacAleer (PC):** I was asked to accept a new position.

**Honourable Robert Ghiz (L):** I'll clear up some time. I've got a few more questions.

**Ron MacKinley (L) (Chair):** Just one question. The shareholders sold 2.6 million worth of old inventory to Polar that they had and they took out 5.6 million in loans for themselves between '98 and 2001. What's your opinion on that 5.6 million in loans that they took out?

**Wes MacAleer (PC):** The \$5.6 million shareholder loan?

**Ron MacKinley (L) (Chair):** Yeah.

**Wes MacAleer (PC):** And the question is what do I think of it?

**Ron MacKinley (L) (Chair):** Well, they sold \$2.6 million worth of old inventory of Polar.

**Wes MacAleer (PC):** Yeah.

**Ron MacKinley (L) (Chair):** Well, they'd own that old inventory.

**Wes MacAleer (PC):** Yeah. They got cash for the 2.6 million, yeah.

**Ron MacKinley (L) (Chair):** And took out 5.6 million in loans for themselves between '98 and 2001.

**Wes MacAleer (PC):** Yes.

**Ron MacKinley (L) (Chair):** Do you think those loans need to be investigated further, that \$5.6 million loans that they took out among themselves?

**Wes MacAleer (PC):** Well, I can't answer that except to point out the fact that anytime you withdrew money from the company, you decreased its financial capacity and weakened its condition. Since that money was withdrawn over a period of time, I would want to investigate whether or not it met the conditions of the agreement which was initially signed. I wouldn't know whether that was the case.

**Ron MacKinley (L) (Chair):** No, but you would like to see that further investigated, the \$5.6 million loan.

**Wes MacAleer (PC):** I think it's a question that could be answered, yes.

**Cletus Dunn (PC):** Mr. Chair, just to comment on that - my understanding is \$8.2 million worth of inventory was transferred into Polar. It took 2.6 or 2.5 - 2.6 out in cash and when that inventory was sold, they withdrew the 5.6.

**Jim Bagnall (PC):** That's exactly right.

**Cletus Dunn (PC):** I'm not sure if that's . . .

**Ron MacKinley (L) (Chair):** I don't know. I know that Wes MacAleer is a witness here today and his statement of February 1, 2005, at 4:03 p.m. Eastern Standard Time, he quotes to CBC is he, however, he said: \$5.6 million in loans needs further investigation. So I just want to see if he still considers what his statement was on February 1<sup>st</sup>. This is what, the 15<sup>th</sup> today.

Another question for the member was on . . . I was reading it here, yeah. Alright, July 7, '98, you weren't - were you in Cabinet on July 7, '98?

**Wes MacAleer (PC):** I don't know. I can't remember exactly.

**Richard Brown (L):** Yes, he was.

**Wes MacAleer (PC):** Ok

**Ron MacKinley (L) (Chair):** Alright, so, alright. July 7<sup>th</sup>, Mike O'Brien sends a letter to Stan MacPherson. Mike O'Brien is Secretary to Treasury Board. Alright, his question is from Stan MacPherson on July 7, '98. Copies of the six processors company's balance sheets prior to the transfer of assets to Polar. So we have Mike O'Brien, Deputy Minister of Finance, also Secretary to Treasury Board, sending a letter to MacPherson and Roach, the company that set - I imagine worked for them, accounting firms, re Polar International and Polar Foods. They're asking for the balance, the company's balance sheets prior to transfer. In other words, they're looking for their financial records prior to taking, forming this amalgamation of the plant. You said that those balance sheets weren't important to you, of the previous balance sheets because it was a new company you were looking at, is that correct?

**Wes MacAleer (PC):** Well, in terms of the way the rollover of assets into the new company was orchestrated, it was not important to know what the liabilities or good will or other assets, other than the fixed assets that were being rolled into the new company.

**Ron MacKinley (L) (Chair):** Now you're saying that but if I go to July 7, '98 letter signed by Mike O'Brien and it says: At this point Enterprise PEI has not been able to confirm to Treasury Board that the financial conditions have been met. So Enterprise PEI, you know, which is your company, I mean you were the minister for it.

**Wes MacAleer (PC):** Right.

**Ron MacKinley (L) (Chair):** Therefore, we again request the necessary information from Polar Foods to ensure proper supporting documents exist to comply with the requirement of Treasury Board minutes TB929297. So in other words, Treasury Board had laid down guidelines for Enterprise PEI, I would assume.

**Wes MacAleer (PC):** Was this with respect to the Polar deal or -

**Ron MacKinley (L) (Chair):** Yeah, yeah, Polar, re

Polar.

**Wes MacAleer (PC):** Okay.

**Ron MacKinley (L) (Chair):** Alright. What it says: Actually, operating balance sheets reflects the new company after capital assets have been purchased for the six processing companies - that's one of the conditions that they wanted. In order to assess conditions associated with government financial, we require copies of the six processing companies balance sheets prior to the transfer of the assets to Polar - so that's their financial records. And then it goes on to say . . .

**Unidentified:** (Indistinct)

**Ron MacKinley (L) (Chair):** No, but the copy went to Eddie Babineau and Hillard MacKinnon.

**Richard Brown (L):** Which reports to Wes.

**Ron MacKinley (L)Chair:** Which reports to you, Wes. So what you're saying here it's not important to have the previous balance sheet in your opinion but yet your deputy minister of finance at that time and Secretary of Treasury Board, Mike O'Brien, said that was in the conditions that was passed at Treasury Board for these balance sheets.

**Wes MacAleer (PC):** Mmhm.

**Ron MacKinley (L) (Chair):** Like and he says the minutes, Treasury Board minutes TB9297, whatever that's . . . so basically, what Treasury Board said and in order to put the deal through, you needed the previous financial statements. But did you just over-rule it as minister and say we don't need it? It's not important.

**Wes MacAleer (PC):** Well, there's no conflict there. The fact that we needed additional information on the companies only indicates that in this case government was doing it's due diligence to ensure that what was happening was being carried out. I mean what was wrong with a request of that nature?

**Ron MacKinley (L) (Chair):** There's nothing wrong with that but what you're saying here is you didn't need the previous financial records of the companies but yet Mike O'Brien is asking your department to get them.

**Wes MacAleer (PC):** No. Well, we didn't need the financial records of the company in order to acquire their assets. We just needed to know what their assets were. Now in confirming whether or not those assets had been transferred into Polar, we needed to know what those assets were and we needed an evaluation of those assets, which was done by Hardy and Ross.

**Ron MacKinley (L) (Chair):** See the company of six processors balance sheets prior to transfer of assets to Polar. Well, balance sheets would mean their financial records, whether they were making money or losing money. You're saying that was immaterial, that was not important. You've already stated it here - because you were looking at a new company and you were looking at, you know, buying the assets and that - but yet Treasury Board here is looking for them because it was a condition of approval of the funds. So I'm wondering did you as minister say: Oh no, we don't need it? It's not important to Mr. MacKinnon or what happened here? We'd have to probably have Mr. MacKinnon in to find out why they were never got. You say you never . . .

**Wes MacAleer (PC):** There's no conflict there.

**Ron MacKinley (L) (Chair):** Sure.

**Wes MacAleer (PC):** No, there isn't. The fact that we were requiring additional information from the companies only means that we were doing what we would normally want to do is ensure that the transactions that were indicated in the original arrangement were carried out.

**Ron MacKinley (L) (Chair):** Yeah, but they weren't carried out.

**Wes MacAleer (PC):** Well, we don't know that.

**Ron MacKinley (L) (Chair):** Well, by going by this letter, it wasn't or you wouldn't be (Indistinct) .

**Wes MacAleer (PC):** Well, I mean the fact that -

**Ron MacKinley (L) (Chair):** So alright, what I could do then is ask Mike Currie for the financial records. He would have them there in Development Agency or Enterprise PEI. Thank you. June 8, '98, response (indistinct) requested to Hillard MacKinnon, Enterprise PEI, Treasury Board (Indistinct) deal, deal, blah, blah, blah. It's

right here.

**Wes MacAleer (PC):** No, my point is that whether or not we had the financial statements of these companies was irrelevant for the process that we were trying to carry out, which was to transfer the assets of these companies into the new company.

**Ron MacKinley (L) (Chair):** Yeah, but in order . . .

**Wes MacAleer (PC):** But the fact that we have acquired those statements would not contradict or limit what we were trying to do.

**Ron MacKinley (L) (Chair):** In order for you, I imagine, to put out this kind of money, your department, your Enterprise PEI probably, Business Development Bank, whatever you want to call it, probably just couldn't go ahead because it looks here like - Therefore, again, we request the necessary information from Polar Foods to ensure proper supporting documents exist to comply with the requirements of Treasury Board. So Treasury Board has rules. Like you guys broke every rule in the book when you did it, when you were the minister but Treasury Board has rules to follow and basically, what this tells me is you got your department saying, you said to us today - you were the minister - that it's not important to the previous financial records but yet Treasury Board is saying it is. That's all I'm saying.

Anyway, who's next? Cletus Dunn.

**Cletus Dunn (PC):** I have a question regarding the MacPherson, Roach, Smith but I just want to go back to the Chair's comment there.

The Treasury Board minute reads, as stated in the letter: Polar Seafood International Inc. shall submit an opening balance sheet that reflects a minimum equity injection by the shareholders of \$14 million, confirmation of working capital financing, and undertaking from the shareholders to convey the plant assets of \$25 million plus the requirement to provide an annual financial statement of Polar - not the previous company. Enterprise PEI are to confirm the conditions have been met and report back to Treasury Board April 15<sup>th</sup>. I think Mr. O'Brien may have taken on extra responsibilities asking for information that doesn't, is not attached to Treasury Board minute 292/97. It doesn't require that in the Treasury Board minute.

**Ron MacKinley (L) (Chair):** Oh, you think Mister . . . what you're telling me . . .

**Cletus Dunn (PC):** No, no. I'm just telling . . .

**Ron MacKinley (L) (Chair):** What you're telling me - I know, I know. Just wait now. What you're telling me . . .

**Cletus Dunn (PC):** I'm just quoting -

**Ron MacKinley (L) (Chair):** . . . you know more about finance rules than Mr. Mike O'Brien.

**Cletus Dunn (PC):** I'm just asking, I'm just reading.

**Ron MacKinley (L) (Chair):** Let's bring Mike O'Brien in.

**Cletus Dunn (PC):** I'm just reading Treasury Board's submission here.

**Ron MacKinley (L) (Chair):** Anyway, continue.

**Honourable Robert Ghiz (L):** I'll second that.

**Ron MacKinley (L) (Chair):** No, but we'll just bring him in later. The letter is here and I mean . . .

**Cletus Dunn (PC):** Well, you just read the request. You didn't read the Treasury Board minute. It's right there. Anyway, that's not the question I have for the member here.

**Ron MacKinley (L) (Chair):** Mike O'Brien.

**Cletus Dunn (PC):** Mr. Chair, I have the floor.

**Ron MacKinley (L) (Chair):** Yeah.

**Cletus Dunn (PC):** Thank you.

**Ron MacKinley (L) (Chair):** Go ahead.

**Cletus Dunn (PC):** Going back to the research that was done and advice received from MacPherson, Roach, and Smith, did they give you advice to proceed with this conglomerate?

**Wes MacAleer (PC):** What they outlined was a business plan which was extensive, which outlined

the, which conducted a SWOT analysis. In other words, they looked at the strengths and the weaknesses of the, of this amalgamation and it was determined that the strengths and the benefits outweighed the weaknesses and that by proceeding with this that there are some good things that could happen to the fishing industry in Prince Edward Island.

**Cletus Dunn (PC):** Do you know if they have access to the balance sheets of the six companies involved?

**Wes MacAleer (PC):** I would not know whether they did or not. That's a question you'd have to ask MacPherson and Roach, okay.

**Cletus Dunn (PC):** Going back to the initial investment by the group, their assets were, I guess, right around 26 million give or take. This assets were purchased by Polar from the six existing companies.

**Wes MacAleer (PC):** Yes.

**Cletus Dunn (PC):** Now when the six existing companies sold their operations to Polar, they received \$26 million of which 11 million went in cash to the six owners.

**Wes MacAleer (PC):** That's right.

**Cletus Dunn (PC):** Another 14 plus million were assets that they put into the company.

**Wes MacAleer (PC):** Yes. They . . .

**Cletus Dunn (PC):** Did they have to put those assets into the company?

**Wes MacAleer (PC):** They put 44, they got paid for 44 per cent of the value which the appraiser had . . .

**Cletus Dunn (PC):** So that 56 per cent . . . -

**Wes MacAleer (PC):** Fifty-six percent went into this new company as a shareholders' loan.

**Cletus Dunn (PC):** And so that became their -

**Wes MacAleer (PC):** Or equity, sorry, as equity.

**Cletus Dunn (PC):** Did that become their shareholder investment that 56 per cent?

**Wes MacAleer (PC):** That became their equity. Now a portion of that appears to be in the form of shareholders' loans.

**Cletus Dunn (PC):** I don't understand the difference there. I'm not a banker. What's the difference between shareholders' loan and equity?

**Wes MacAleer (PC):** Well, the equity portion would have been the difference between what they were paid for the assets versus what the - well, first of all, there's the evaluation of 27 million and they would have been paid 44 per cent for those assets, 40 per cent of their value and the rest was included in the company as their equity in support of the company.

**Cletus Dunn (PC):** My next question is: Who negotiated that agreement of 44/56? Was it among themselves or was it with government as an investor or . . .

**Wes MacAleer (PC):** I would say it would have been the staff at BDI and the shareholders.

**Cletus Dunn (PC):** Prior to this consolidation, was there a PEI fish processing association in existence at that time?

**Wes MacAleer (PC):** Not to my knowledge. I think they were all quite individual in their approach. I wasn't aware of an association or a group that you could meet with in the processing sector. The fishermen were much better organized in that regard.

**Cletus Dunn (PC):** Thank you for now.

**Ron MacKinley (L) (Chair):** Another question leading up to yours, and Robert, you're next for questions. Were you aware that a lot of these processors that you bought out their companies, there may be some more (indistinct) to look into as a group of suing the provincial government and the federal government? Are you familiar with that?

**Wes MacAleer (PC):** You mean at the time that we were . . .

**Ron MacKinley (L) (Chair):** No, beforehand. Well, sometime back at that particular time that this group - before this deal was put together - that this group had met, had got together and had hired a lawyer to look in at issuing a lawsuit against the provincial and federal government.

**Wes MacAleer (PC):** No, that was never an issue. That's new.

**Ron MacKinley (L) (Chair):** No, you never knew that.

**Wes MacAleer (PC):** No, no.

**Ron MacKinley (L) (Chair):** Well, apparently, they did. I don't know how far it went but, apparently, I was told that they did.

**Wes MacAleer (PC):** What were they going to sue the government for?

**Ron MacKinley (L) (Chair):** They would sue the government for not being treated fairly basically.

**Wes MacAleer (PC):** Well, they certainly brought it to our attention that they were . . .

**Richard Brown (L):** (Indistinct)

**Ron MacKinley (L) (Chair):** What?

**Wes MacAleer (PC):** It was brought to our attention that they weren't being treated fairly but nobody mentioned that, said that they were going to take us to court.

**Ron MacKinley (L) (Chair):** They had looked into taking you to court, I've been told. They looked into taking the government to court for -

**Wes MacAleer (PC):** The provincial government that is.

**Ron MacKinley (L) (Chair):** Provincial and federal government to court because they weren't being, getting their fair share of the taxpayers' dollars compared to, they said at that time Royal Star and they wanted more money. So just another question there. Yeah, to Cletus Dunn's comments there. Mike O'Brien, from Treasury Board, Secretary to Treasury Board, did request - this is only July 7<sup>th</sup> a letter went out, the company was

probably registered on May 4<sup>th</sup> - and he was looking for information on their previous, previous balance sheets from the . . . copies of the six processors' companies' balance sheets. So he's definitely asking for it just as the deal was being signed.

**Wes MacAleer (PC):** Yeah.

**Ron MacKinley (L) (Chair):** So now we'll turn it over to Robert Ghiz.

**Honourable Robert Ghiz (L):** Thank you very much.

Just some points that the Member from Alberton-Miminegash was raising - he was saying MacPherson, Roach, and Smith said that it was a good deal. Who were MacPherson, Roach and Smith representing?

**Wes MacAleer (PC):** Well, they could be best described as an objective party in this. They were being paid by the government.

**Honourable Robert Ghiz (L):** No, no, no. They were being paid with government money.

**Wes MacAleer (PC):** That's right.

**Honourable Robert Ghiz (L):** And who did the government money first go to? Did the government say you have to go to MacPherson, Roach, and Smith or did the money go to the shareholders and then they picked who they want? They were the ones that decided where the money went.

**Wes MacAleer (PC):** I think it was a negotiated arrangement where it was decided that the six parties that were forming this company would approve of MacPherson, Roach, Smith as an objective party who would examine this issue and give a fair representation of what they wanted to achieve.

**Honourable Robert Ghiz (L):** Also on the 56 per cent, you know the 44 per cent was paid out to the shareholders.

**Wes MacAleer (PC):** Yes.

**Honourable Robert Ghiz (L):** Then their equity in

the company was the 56 per cent that they put in.

**Wes MacAleer (PC):** Right.

**Honourable Robert Ghiz (L):** Who owned the company? Who owned Polar?

**Wes MacAleer (PC):** Well, the shareholders.

**Honourable Robert Ghiz (L):** Okay.

**Wes MacAleer (PC):** Yeah, yeah, the shareholders and their families. There was 13, wasn't it?

**Honourable Robert Ghiz (L):** Yeah.

**Wes MacAleer (PC):** Thirteen shareholders.

**Honourable Robert Ghiz (L):** Yeah.

**Ron MacKinley (L) (Chair):** Richard Brown.

**Richard Brown (L):** Thank you.

Personal guarantees, like you said the industry didn't require personal guarantees.

**Wes MacAleer (PC):** No, well.

**Richard Brown (L):** And you mentioned the co-ops that they don't require personal guarantees. Who owns the co-ops?

**Wes MacAleer (PC):** It's difficult to get personal guarantees. Personal guarantees are a security and you assume if you're going to levy a personal guarantee that at some point in time, you're going to exercise it. So it has to be an instrument that's suitable for the transaction that you're undertaking. In the case of the co-ops, you'd have to get, in some cases, 300 personal guarantees or 400 personal guarantees. It would be a difficult thing to implement.

**Richard Brown (L):** But you can get limited personal guarantees because when my brothers and I set up a company, we are personally guaranteed up to a maximum amount.

**Wes MacAleer (PC):** In the co-ops.

**Richard Brown (L):** No, in our company.

**Wes MacAleer (PC):** Oh yeah, but you're a corporation.

**Richard Brown (L):** Yeah, but the shareholders could have had personal guarantees up to a limit.

**Wes MacAleer (PC):** Oh yeah. I mean it was possible to get . . .

**Richard Brown (L):** So the co-ops are owned by who?

**Wes MacAleer (PC):** Well, I assume the shareholders.

**Richard Brown (L):** Which are the fishermen.

**Wes MacAleer (PC):** Well, in some cases it would be fishermen; in other cases it would be people who work in the plants, et cetera. Whoever belongs to the co-operative.

**Richard Brown (L):** So wouldn't you say that if I'm a fisherman and I am a part of co-op, that I'm supposed to sell all my product to the co-op. Wouldn't that be a guarantee? Like what the fisherman is saying there, he's saying: I'm guaranteeing the co-op all of my income because I'm mandated by the co-op rules to sell all my product to the co-op so that is a guarantee by fishermen, wouldn't you say?

**Wes MacAleer (PC):** (Indistinct)

**Richard Brown (L):** The rules of the co-op say that they have to provide their catch to the co-op.

**Wes MacAleer (PC):** Well, it's a form of assurance, I guess.

**Richard Brown (L):** But that's a guarantee. I'm guaranteeing you my product that I catch.

**Wes MacAleer (PC):** You're saying that in some cases that condition exists.

**Richard Brown (L):** It exists now. To be a part of the co-op, you have to sell your product to the co-op. I don't think you can be a fisherman in a co-op and not sell to the co-op, can you?

**Jim Bagnall (PC):** You can. If you check with the fishermen, a lot of the fishermen will sell to two

or three packers. They don't . . .

**Richard Brown (L):** But they have to guarantee a certain amount to the co-op.

**Jim Bagnall (PC):** No, they don't. They can sell where they want to.

**Richard Brown (L):** They can be members of the co-op and not sell one (Indistinct)

**Jim Bagnall (PC):** It actually happens. (Indistinct)

**Honourable Robert Ghiz (L):** We'll check that out.

**Ron MacKinley (L) (Chair):** Anyway, we just (indistinct) . Richard.

**Richard Brown (L):** Just a couple of points. Were you on Treasury Board between 2000 and 2003 like when you were out of Cabinet, your second term?

**Wes MacAleer (PC):** I was on Treasury Board. There was a period of time when I wasn't on Treasury Board, but -

**Richard Brown (L):** Most of the time.

**Wes MacAleer (PC):** Yeah, most of the time it was.

**Richard Brown (L):** So like you've said, SARS, 9-11, NASDAQ, wars, everything happened in 2000.

**Wes MacAleer (PC):** Yes.

**Richard Brown (L):** You know, it was. . .

**Wes MacAleer (PC):** Well, and 2001.

**Richard Brown (L):** Major crisis happened, so why did you reject, your Treasury Board, when the companies came back to you in September 2000 saying: Look, the world has changed. Things are changing. We need to restructure here.

You just said that major things were happening in the world, the economies were going down and people weren't buying as much or they weren't as confident as much. The company recognized it. The company said: Look, we need to restructure

here. We need to shut down some of these plants.

So why, on Treasury Board, would you say: No, we don't want you to shut down. We want you to expand? In light of all the disasters that you outlined earlier, the company came back to you and said: There's problems. We have to do something. So why didn't you do anything in 2000?

**Wes MacAleer (PC):** Why didn't -

**Richard Brown (L):** You know, they came back to you a couple of times asking to reorganize, but each time, it was: No, you have to keep going.

**Wes MacAleer (PC):** So what's the question?

**Richard Brown (L):** Why didn't you rationalize or why didn't you do what the company recommended? You see, what bugs me here is I know the shareholders were blaming the company for a lot.

Mike Currie said it was their fault, not our fault. You come in and blame bin Laden and everybody else, but the company comes back to government time and time again saying: It isn't working. We need to rationalize. We need to do things here.

**Wes MacAleer (PC):** Right.

**Richard Brown (L):** And time and time again, Treasury Board and government said: No. Keep it going. Keep her afloat until after the vote. And my question is why didn't you take the advice of these shareholders on several occasions?

**Wes MacAleer (PC):** Well, I can't answer the question from government's perspective, but from a personal perspective, I would assume that government's main interest in supporting this enterprise was not unchanged from its initial investment, which was they were trying to protect jobs, and by ensuring that the plants remained operating or that the employment levels would continue. A condition of government's involvement in this was that the company maintained certain employment levels.

**Richard Brown (L):** So then what (Indistinct)?

**Wes MacAleer (PC):** And if employment levels were going to decrease, I would assume that government's involvement was going to decrease.

**Richard Brown (L):** So what you're saying then this wasn't about the fishing industry. This was about jobs.

**Wes MacAleer (PC):** I think a large part of it was maintaining jobs, yes.

**Richard Brown (L):** So it was a job creation program and not a (Indistinct)?

**Wes MacAleer (PC):** I think it was - I think supporting communities and jobs was a major factor in government getting involved in this enterprise.

**Honourable Robert Ghiz (L):** It was a Crown corporation.

**Richard Brown (L):** So what you're saying is this was an easy solution for government to create jobs? Instead of the department of industry going out and looking for new jobs, looking to expand the economy, taking the rough road, going out and getting new companies to come to PEI, you said: This is an easy way to create jobs. This is easy. We can get these companies, we can give them money, and we can pour the money into these companies and create jobs, and then we don't have to go out and look for companies or look to expand the economy of PEI.

**Wes MacAleer (PC):** I wouldn't define it as being an easy task.

**Mr. R. Brown:** Well, it was pretty easy. You just kept throwing money at it.

**Wes MacAleer (PC):** Well, it was (Indistinct).

**Richard Brown (L):** That's pretty easy.

**Wes MacAleer (PC):** It was more than just giving these people money. It resulted in a lot of the discussion and involvement of people's lives and their aspects, and when you put a face to this, these people came forward and we were hoping that with their residency on PEI and their commitment to PEI, that we could bring them together to make an enterprise that was going to benefit the industry as a whole, not just their individual companies.

**Richard Brown (L):** That's where you and I differ.

I would see these problems occurring and the company saying there's a problem, I'd say: Okay, we'd better get other employment for these people and allow the industry to rationalize.

But the government chose to just keep throwing money at it, keep forcing the company to keep it going. You read a substantial amount of your brief - I'd say almost 60 or 70 per cent of it was directly from the Baker Report. When you were reading there, the leader and I were reading the Baker Report, and a substantial amount of your discussion was from the Baker Report. I'd argue 70 per cent. You cut and pasted it pretty well.

**Wes MacAleer (PC):** Well, there were other reports.

**Richard Brown (L):** But I've got one question then. If you read so much of the Baker Report in your report and so much of it was focused on it, the number one recommendation of the Baker Report was to form a marketing corporation.

**Ron MacKinley (L) Chair:** Baker, another big Tory report.

**Richard Brown (L):** And to recommend (Indistinct)

**Ron MacKinley (L) Chair:** A Tory report.

**Richard Brown (L):** This entity should be established immediately with ownership and shareholders status open to all of PEI, so this was his major recommendation was that a marketing corporation be set up that not only the private sector companies be included, but that the co-ops be included, that all the industry be allowed. Why didn't you take that recommendation?

**Wes MacAleer (PC):** Well, quite obviously if you're saying that I quoted from the Baker Report, obviously we'd be (Indistinct).

**Richard Brown (L):** But you didn't listen to it.

**Wes MacAleer (PC):** We differ from the comments made in the Baker Report, so you're asking me why we would not have entertained the concept of having a marketing agency.

**Richard Brown (L):** Well, that's what the Baker Report recommended that you read from, 60 per

cent of your (Indistinct).

**Wes MacAleer (PC):** Well, if you want to discuss that issue, I think all you have to do is go back to an earlier effort by a previous government to create a marketing agency in the potato industry and that was -

**Richard Brown (L):** So you say the Potato Marketing Board?

**Wes MacAleer (PC):** No, no. The effort made to create adequate foods and to purchase MacKay and Hughes.

**Richard Brown (L):** But Abegweit Potatoes are still going.

**Wes MacAleer (PC):** There's a key statement in the proposal or in the offer, the RRSP that we prepared together with the six, and that was that the government wanted to be an investor. Our role was not to run a fish processing plant or a series of plants. Our role was simply to put money in because the experience of previous governments in this role of helping an industry sector had indicated that when governments get involved in the day-to-day operations of companies like this that the accountability and the scrutiny which the public demand really is in conflict with what is in the best interest of the company's operation.

**Richard Brown (L):** But that's where you failed. Earlier in your discussions, you said the shareholders didn't trust each other, the shareholders didn't trust government, government didn't trust them, so wouldn't it have been a prudent action on your part to say: We have six shareholders that are going around the table here that don't get along with each other. Government is committed to \$14 million here. We are a shareholder. Wasn't it an obligation on your part to sit in on those board meetings?

Let's take, for example, the big pension companies, okay? When they invest in corporations, they demand seats on the boards in order to protect their investment, so shouldn't you, as government, knowing full well that they couldn't get together, they didn't trust you, well, wouldn't it have been prudent at that time to say: Well, we'd better have a seat on the board just to insure that our investment is protected and that these people work together and that we save this industry?

**Wes MacAleer (PC):** Initially, it was thought that that suggestion was not required.

**Richard Brown (L):** But you just said they didn't trust each other, they didn't trust government.

**Wes MacAleer (PC):** I'm not indicating that your suggestion is a bad suggestion, and later in the evolution of this company, we changed our approach and we did insist that we have a representative on the board.

**Richard Brown (L):** Yeah, but your board member, as we understand, only went to one or two meetings and he was just there for informational purposes. You sent him to the board six months before the election: Get over there, control this situation, keep it under wraps until after the vote, and then we'll take these six guys out.

That's what really (Indistinct). You gave a \$14 million loan. You knew full well in July, six weeks before the election, you were going to take them out right after the election, so you wanted to protect your investment.

**Ron MacKinley (L) Chair:** (Indistinct) Are you done, Richard?

**Richard Brown (L):** Yes.

**Ron MacKinley (L) Chair:** Go ahead, Jim.

**Jim Bagnall (PC):** I just want to go back to the MacPherson Report and the comment you had made there about the directors, or the six individuals. It's my understanding in part of that is why they got the MacPherson Report done - and I could be wrong, Mr. MacAleer, and you could correct me if I am - but these six companies had six sets of records, six sets of customers that they did business with and information that was relative to running their own companies.

And my understanding - and maybe I'm wrong, and if I am - that the reason this was done by an independent person was that each of the individuals, the records were confidential with this group in case the company didn't proceed ahead, so that any of these companies weren't giving out their customer list or they weren't giving out their business programs to deal with their own companies, so an independent was brought in to put this together or this information would be kept

away from each other until such a time that the company was formed and actually came together. Is that not what the whole purpose of putting this MacPherson Report and getting this information together?

**Wes MacAleer (PC):** Yes, you're absolutely correct, and one of the challenges, of course, that faced MacPherson and Roche was that they had to visit each one of the locations. In some cases, the records probably were not as well-kept or the system's not that accessible and these people, in their perception, had a lot of value in their records and what they had done, and a lot of time was spent interviewing people, so that explains partly the extent of the cost that was involved in this.

You had an industry that lacked information systems that were more modern and a lot of the information was in the heads of people, and they had to interview these people, so that explains some of the costs.

**Jim Bagnall (PC):** And I guess that's what I'm getting back to then. Maybe your statement might have been a little harsh in the fact that these people didn't trust each other. I think the problem was that these six individuals didn't want to give their business away to anybody until such a time that it came into the company and to put it together and I guess that would be where I'm coming from here is that if I was in business, I wouldn't want to give somebody my financial figures unless the actual deal was made and the companies were coming together.

Then I'd have no problem, but I mean, to give in a preliminary exposure of all their customers, of all of their information, I can understand why they would need somebody to come in and do an independent report where this information wasn't getting in the hands of each individual, till the deal has been finalized.

**Wes MacAleer (PC):** Yeah, and you being a businessman, I think you can appreciate that this was a situation in which these people were giving up what they thought were items of value that they had spent their lives developing, and you're right.

Maybe I am a bit harsh by saying they didn't trust one another, but that's a bit of a simplification, but the reality was that the confidence that they had in one another could only increase by their working

together, and that had to occur as a result of the forces of the marketplace and our initiative to try and to encourage that.

**Ron MacKinley (L) Chair:** Wayne?

**Wayne Collins (PC):** I just want to add a clarification to that from the business plan, where Mr. MacPherson says that the greatest strength of this new corporation is its people, but he also says the greatest weakness of the corporation is its people.

He says the six key people, one from each of the participating companies, will bring to the new company many years of successful experience in various aspects of the marketplace. Clearly these are accomplished and astute participants in both domestic and international markets with long, established relationships, which will be critical to the company's early success.

It goes on to say here, and I think it's interesting. Under the weaknesses, it says: It is not unusual that a company's greatest strength also has the potential to be its greatest weakness. The six key people who bring so much to Amalco are aware that their long experience as independents has formed attitudes which can buttress the natural human resistance to change. The participants are aware that they must participate to a large extent outside of the box. The new opportunities which present themselves, together with the challenge to respond creatively, while at the same time being aggressively proactive, will demand that the participants work together under strong leadership to execute a market-driven business strategy.

So I think that the whole issue of people, strength and weaknesses, tremendous experience and the determination to succeed was well put together by Mr. MacPherson going into this. It was well-understood.

**Richard Brown (L):** (Indistinct)

**Ron MacKinley (L) Chair:** Richard. Wes, would you respond to the commercial we just had? You've got to respond.

**Wes MacAleer (PC):** Business plan.

**Ron MacKinley (L) Chair:** Yeah, it's been established, and Wes has got to respond. You

must have a question.

**Richard Brown (L):** That's why we should (Indistinct).

**Ron MacKinley (L) Chair:** Anybody can read the business plan. It's there. Anybody knows that anybody gets into business, they're going to have people that have different opinions, so Wes, could you respond to Wayne Collins' statement there. I'm sure there was a question there somewhere.

**Wes MacAleer (PC):** Well, I think he outlined one of the critical issues that the company had.

**Ron MacKinley (L) Chair:** Just wait now. Wait, let Mr. MacAleer respond.

**Wes MacAleer (PC):** And these people had to work together to make this a success.

**Richard Brown (L):** And that's why you should have had somebody on the board.

**Wes MacAleer (PC):** And whether or not that happened, I mean, it's beyond my understanding of the matter, to know whether or not that occurred. That was identified as one of the issues that (Indistinct).

**Ron MacKinley (L) Chair:** I'm asking you a question. Mike Currie came and blamed the shareholders, hands in the government's pockets and everything else, went on here and made a bunch of sort of foolhardy statements, as he normally does.

When you look at the Auditor's Report, it looks - and I want you to give your best of your ability as being a businessperson. You've talked to - you and Bagnall are two businesspeople, well-noted on PEI for being in business.

The question I have for you is with the minister's statements he made, don't you think government has a big part in why this company failed? You lost \$31 million. If you look through the records, the businesspeople that own this, shareholders, wanted to downsize some of their plants to be more efficient, then all of a sudden, they were told not to.

You admitted here it was to create jobs, and basically, would you admit that the whole thing

was doomed near to fail from day one because of - every report we get, whether Wayne reports it or not, there were too many lobster processing plants in the province. There were too many. There were undersized - you've got a quota, like supply and management.

There's always going to be a scarcity of lobsters unless we get an abundant catch, but as long as I can remember, there's never been enough lobsters to go around because it's a delicacy and it's a high-end product. Don't you think, Mr. MacAleer, that if you hadn't gotten involved in this that three or four of these plants would have been still running? We would have saved that \$31 million.

**Richard Brown (L):** Everything would go (Indistinct).

**Ron MacKinley (L) Chair:** Just let him answer, will you?

**Wes MacAleer (PC):** Well, you could draw that conclusion if you wanted to. I mean, it's your opinion. It's your opinion, and what we did was we put together an enterprise that lasted five to six years.

While it didn't succeed in meeting its objectives, there were benefits. There were benefits to the community, not the least of which we still had a processing sector to sell to another enterprise, and we did provide jobs for people, that they didn't go on welfare, that they were still able to collect unemployment insurance, and the government did benefit from this.

To what extent? I mean, you can debate whether it was \$75 million or \$30 million or whatever, but there was sale tax. There was income tax. The community did get back some of that investment, so the total loss is not a net figure of \$31 million, but did I hope that this business would fail? We put a lot of effort into it. Yeah, I did.

**Ron MacKinley (L) Chair:** Richard, would you let Mr. MacAleer . . .

**Wes MacAleer (PC):** There was a lot of effort put into talking to a lot of people and trying to persuade him that this was an approach which we needed to take, and by everybody's admission that looks at this, it was a different approach.

It was something that the previous governments had not tried to do, and I personally thought it was a good effort, that we could make this work. The fact that it didn't, I'm not happy. Who would be? But we tried it and now we know that this type of thing doesn't work.

**Honourable Robert Ghiz (L):** But you said you'd do it all over again.

**Wes MacAleer (PC):** I would. Of course I would.

**Ron MacKinley (L) Chair:** But the thing is, Mr. MacAleer -

**Wes MacAleer (PC):** Because the circumstances at the time dictated a new approach.

**Honourable Robert Ghiz (L):** (Indistinct)

**Ron MacKinley (L) Chair:** I know you -

**Wes MacAleer (PC):** But it didn't work, so name me - I could name you a lot of things that don't work.

**Ron MacKinley (L) Chair:** Robert, would you just let Mr. MacAleer finish?

**Honourable Robert Ghiz (L):** I apologize.

**Ron MacKinley (L) Chair:** Wes, just another question for you. You say that by the government putting out all these millions of dollars, you lost \$31 million, that it did create jobs. It did create taxes coming back in. But do you think really, in theory, that the government of PEI can operate by losing \$31 million every six or seven years on businesses they create? Where would we be? Like that's not a very long life of that particular deal.

**Wes MacAleer (PC):** It's something you'd only want to do once and not want to repeat.

**Ron MacKinley (L) Chair:** But you said you would have repeated it.

**Wes MacAleer (PC):** I said that given the same circumstances and the same factors, I would have made the same decisions, but in retrospect with 20-20 hindsight, it's easy to say, we shouldn't have done that, but we're not exploring this issue from where we are now. You have to explore the issue

from where the government sat in November of 1996 and the circumstances which we didn't know about which followed.

**Ron MacKinley (L) Chair:** But the thing is -

**Wes MacAleer (PC):** It's not something - it's easy to be an armchair quarterback and say the play should have been after it was done and failed, but that's not the circumstances.

**Ron MacKinley (L) Chair:** But Wes - what concerns me as Chairman of Public Accounts, you had made a statement here is that you would do the deal all over again and that's what you said, and that would assume to me you'd make the same type of deal in another deal providing you'd keep it running six or seven years and probably do it all over again and lose another \$40 million, maybe, in the next deal, or even \$10 million.

**Wes MacAleer (PC):** No, you're (Indistinct).

**Ron MacKinley (L) Chair:** Well, that's what you're saying.

**Wes MacAleer (PC):** Yeah, but see, you're driving your car using a rear-view mirror.

**Ron MacKinley (L) Chair:** No.

**Wes MacAleer (PC):** Yes, you are.

**Ron MacKinley (L) Chair:** (Indistinct)

**Wes MacAleer (PC):** No, you've already had the accident and what you're saying now is you shouldn't have had it.

**Ron MacKinley (L) Chair:** All right, so let's go to your scenario, though, then. What has your government done to take accountability into the bureaucrats and the ministers that made these mistakes? If we want to make sure we don't - let's say we had the accident and all of a sudden, you're high-risk because you've had an accident - and a big accident is what you had.

So what - you've broken every rule in the book, pretty well, when you look at the Auditor's Report by sloppy department work and stuff in your department. It's there, i's and t's. As Mike Currie said, he didn't have time to cross the i's and t's, so

my question is us as Legislative Assembly members - or if you yourself, a member of Legislative Assembly - what should we recommend saying back to government?

Should we say that deputy ministers should be let go or people on the staff that don't follow through the proper work be let go? Ministers should be turfed out or pay a penalty when there's a mess like this happens?

You're high-risk. There's a high risk. You're in an accident. It's all right to look through the rearview mirror, but the reason you look through the rearview mirror is you don't choose the same accident all over again, and what you have admitted and the Premier has admitted here is that you'd do the same old accident all over again.

**Wes MacAleer (PC):** Listen, listen. Tell me in the Auditor General's report where he says what we did was a bad idea.

**Ron MacKinley (L) Chair:** What he said was you made sloppy bookkeeping. It's not his idea . . .

**Wes MacAleer (PC):** I'm not disagreeing with you. You and I will agree on (Indistinct).

**Ron MacKinley (L) Chair:** . . . It's not his idea to say you had a bad idea.

**Wes MacAleer (PC):** But was it a bad idea?

**Ron MacKinley (L) Chair:** The Auditor General - you can ask him when he comes before us - but what the Auditor General says in this is you broke nearly every rule in the book and you made a mess. He's very disturbed - he used very polite words like he's disturbed.

I noticed the lady in Ottawa - Sheila Fraser, is it? - said she was disturbed at the inquiry into the advertising scandal, so they used words like very disturbing, and the auditor used those words, very disturbing.

It's not the auditor to make a commitment whether you had a good idea or not. It's the auditor's job to find out whether you followed the i's and the t's and the dots and the d's and make sure none of this money went into somebody's back pocket. That's his job.

**Honourable Robert Ghiz (L):** Mr. Chair?

**Ron MacKinley (L) Chair:** Robert?

**Honourable Robert Ghiz (L):** I'd just like to point out that basically what you've pointed out today is you would do the whole deal over again. You say there were a few little mistakes along the way, but on page 16 of the Auditor General's report - and you wanted us to quote from the Auditor General - it said: Without the financial statements of the original companies, staff of BDI could not review the financial performance and condition of the companies that would provide the foundation for the newly-amalgamated company in which government was making a substantial investment. Such a review would be carried out by any prudent investor.

And what this says here is you were not doing your due diligence as a new minister of the Crown to the Province of Prince Edward Island in protecting taxpayers' money, and that's what this points out and that's where the problem is with this.

There's nothing wrong with government being there to try and help industry, support industry, but they also have to be there to ensure that they're doing these deals in the best interests of taxpayers' money and ensuring that they're protecting taxpayers' money at all costs, and what this 70-page document points out is that every step of the way, your government - Pat Binns' government - failed to do that, and that's what this report pointed out.

**Wes MacAleer (PC):** My response to you is this: What the Auditor General is pointing out here is that government was investing in the original companies. That's what he's saying here.

**Honourable Robert Ghiz (L):** He's saying that any such a review would be carried out by any prudent investor.

**Wes MacAleer (PC):** We were not investing in the original companies. We were investing in a new company, to which a number of entities were going to bring their assets at an evaluated amount and if that recognition was going to be as a result of an independent appraisal, which all parties agreed to, and it was just that simple.

We were not interested in exploring the financial

condition of these original companies. We were not interested in their liabilities, their goodwill, and other than the assets that they had, which we evaluated, it was a very simple process.

Had we gotten involved in evaluating all the checks and balances that one needs to evaluate in a company such as goodwill, such as lists, such as the customers, et cetera, yeah, we would have needed all of this financial information, but we -

**Honourable Robert Ghiz (L):** This is why you're not offering good government because you were not there to do your number one job that is protect the taxpayers dollars and right here the auditor general says: without the financial statements of the original companies, staff of BDI could not review the financial performance and condition of the companies that would provide, provide the foundation for the newly amalgamated company in which government was making a substantial investment, investment with taxpayers dollars. Such a review would be carried out by any prudent investor.

**Wes MacAleer (PC):** No.

**Honourable Robert Ghiz (L):** You failed to protect taxpayers' dollars bottom line.

**Wes MacAleer (PC):** Well whether or not we failed to protect taxpayers' dollars is not the same issue that you're discussing here.

**Honourable Robert Ghiz (L):** Yes it is. That's what we are discussing. We're discussing the mismanagement of the Polar Foods file right from the beginning. We are discussing the Auditor General's Report which is a 70-page scathing report. That's what we are discussing.

**Wes MacAleer (PC):** We're discussing the process that government used to formulate its support for this enterprise.

**Honourable Robert Ghiz (L):** That's what your discussing. What we're discussing is the Auditor General's Report.

**Wes MacAleer (PC):** So I'm just saying there's some internal procedures within government that need to be followed and I think that we've all agreed that those procedures are legitimate and should be followed. So -

**Honourable Robert Ghiz (L):** Thank you.

**Wes MacAleer (PC):** - I'm not disagreeing. Your point is and I continue to go back to this - that the financial statements of these companies, yes we could of asked for them, we could of labored over them, but what we tried to do was make this arrangement as simple and as straight forward and as uncomplicated as we could make it - make this one company a success.

**Honourable Robert Ghiz (L):** So the auditor is wrong.

**Wes MacAleer (PC):** No, I'm saying that from his perspective and what his assumptions are he's quite correct. But his assumptions, the assumptions are not the same assumptions that we had when we formed this company.

**Honourable Robert Ghiz (L):** Okay the auditor made assumptions.

**Wes MacAleer (PC):** No, I'm just saying the assumptions that the auditor is making is that we needed this information in order to form this company and all I'm saying is we didn't need it. It's that's simple.

**Honourable Robert Ghiz (L):** So the auditor is wrong.

**Richard Brown (L):** And that's why we lost \$31 million.

**Ron MacKinley (L) (Chair):** You talked to the auditor. The business failure of Polar Foods cost island taxpayers approximately \$31 million. How could investment in a company - one company suffer such a substantial loss? This is what the auditor saying about it. Our review disclosed a number of weaknesses in the processes in place for approving assistance, that's nice friendly terms - weaknesses. Government's risk was high from the beginning. So what he's saying here is you had a very high risk from the beginning. That's what he's saying.

**Wes MacAleer (PC):** Yes.

**Ron MacKinley (L) (Chair):** The owners bore some risk when they transferred in their plants assets but, without personal guarantees, their risk

was limited. So basically what he's saying it was a bigger risk for you people than the owners.

**Wes MacAleer (PC):** Right.

**Ron MacKinley (L) (Chair):** A number of factors contributed to the high exposure in this file. The original business plan did not address the well documented overcapacity problem of the seafood processing industry. I think that's where you people sort of failed - the Board of Directors of this company knew that there was over processing, they didn't get to streamline the plants. The monitoring on the file - they're looking now into the file regards of which government department suppose to be - was not good enough with the risk. So in very friendly terms the auditor is telling you, you got a mess on your hands and it cost \$31 million.

I don't know how much nicer he could put it.

**Honourable Robert Ghiz (L):** Thank you very much for appearing today.

**Ron MacKinley (L) (Chair):** Thank you Wes.

**Wes MacAleer (PC):** I won't say it's my pleasure, but it's been an interesting experience.

**Richard Brown (L):** Oh you only lost \$31 million.

**Ron MacKinley (L) (Chair):** You are excused, Wes.

**Wes MacAleer (PC):** Thank you.

**Ron MacKinley (L) (Chair):** Now, new business.

**Honourable Robert Ghiz (L):** Do we want to deal with those motions that we had put on hold or are they still on hold?

**Ron MacKinley (L) (Chair):** Number one under new business, Jim Bagnall had wanted to bring something up here.

**Honourable Robert Ghiz (L):** Okay

**Ron MacKinley (L) (Chair):** And I said we'd bring it up under new business. One pm until 4pm

**Jim Bagnall (PC):** We had met last week and

when we left we had agreement on the committee that we would meet from 1pm to 5pm on Thursday and I noticed - I'm not sure whether it's a just a typo error or.

**Ron MacKinley (L) (Chair):** It's not a typo error. It's 1pm to 4pm because the Chairman has a commitment I got to attend at 4:30 pm. That's why I called it. The Chairman has the right to do that.

**Cletus Dunn (PC):** You can change it?

**Ron MacKinley (L) (Chair):** Yes.

**Cletus Dunn (PC):** You changed this. (Too many speaking at once)

**Jim Bagnall (PC):** We have the vice chair.

**Honourable Robert Ghiz (L):** I rather prefer to have the meeting with the chair. A three hour meeting is plenty of time for a meeting.

**Ron MacKinley (L) (Chair):** Anyway I just got an appointment at 4:30. There's not much I can do.

**Cletus Dunn (PC):** We have a vice chair.

**Ron MacKinley (L) (Chair):** But the thing is we're sitting here for half an hour and we don't have anybody in front of us. What are we going to do. Fight and squabble here for half an hour.

**Cletus Dunn (PC):** I'll call the hour.

**Ron MacKinley (L) (Chair):** Why would you call - you got half hour (Indistinct) .

**Cletus Dunn (PC):** I'm going back to the original motion of 5pm because that was moved. You can't change that within permission of the committee.

**Unidentified:** I call the hour.

**Ron MacKinley (L) (Chair):** Is that right?

**Honourable Robert Ghiz (L):** No the chairman sets the time.

**Wilbur MacDonald (PC):** The committee sets the time.

**Ron MacKinley (L) (Chair):** Just wait now -

**Wilbur MacDonald (PC):** The committee sets the time.

**Marian Johnston (Clerk Assistant):** The last meeting I wasn't clear what the time was and in the transcripts. . .

**Honourable Robert Ghiz (L):** I thought it was 1pm to 4pm.

**Jim Bagnall (PC):** It was 1pm to 5pm and that's why we had the big argument.

**Honourable Robert Ghiz (L):** No, no we had the big argument because Wayne Collins wanted to have an eight hour long meeting. That's why we had the big argument.

UPROAR.

**Honourable Robert Ghiz (L):** Sunday is the best day for me. Yes.

**Jim Bagnall (PC):** Anyway pick a week day.

**Richard Brown (L):** I got to go at 9:00.

**Ron MacKinley (L) (Chair):** So we got Younker in here on Thursday. When is the next Tuesday.

**Jim Bagnall (PC):** Thursday 1pm to 5pm right.

**Ron MacKinley (L) (Chair):** 1pm to 4pm.

**Wayne Collins (PC):** 1pm to 5pm by committee rules, isn't it?

**Ron MacKinley (L) (Chair):** Well the meeting is already set 1pm to 4pm.

**Wayne Collins (PC):** I'd like to see what the transcripts says.

**Ron MacKinley (L) (Chair):** Well you get the transcripts. You go type them up and you get them and you get some extra people here with some money or get the paper or do something or write it down. Do one of those. Well at least do something will you?

**Honourable Robert Ghiz (L):** Is there anything else Mr. Chair or wasn't the hour called.

**Ron MacKinley (L) (Chair):** The hour was called.

**Honourable Robert Ghiz (L):** Okay so we're 1pm to 4pm on

**Ron MacKinley (L) (Chair):** We'll see you on Thursday.