

## STANDING COMMITTEE ON PRIVATE MEMBERS' BILLS

March 7, 1995

**The Chairperson:** — Call the meeting of the Private Members' Bills Committee to order. The business before the committee this morning is Bill No. 04 — The Saskatchewan Wheat Pool Amendment Act, 1995.

We have sessional papers 131, 138, and 141, which are petitions received by the House opposing Bill 04. The petitions were presented by members Jess, Keeping, Roy, Penner, and Bradley, and are hereby tabled in the committee for the consideration of members. And there is additional material and additional copies of the petitions and copies of briefs which are being presented.

On my right is Ms. Ronyk, the Clerk of the legislature; and on my left, Mr. Cosman, legal counsel. Meta Woods is sitting on the far right there against the wall, and if you want copies of any of the presentations or any other papers that are germane to the business, they'll be happy to assist you and provide you with copies.

I would ask the indulgence of our first witnesses this morning for just a few moments for the committee to deal with some procedural items. It's very difficult to have an ad hoc meeting of this committee because of the all-party nature of it where we all have separate duties and different agendas, and the requirement for *Hansard*.

So some issues have arisen over the weekend that we need to briefly deal with before we go into the business of introducing and hearing the first presentation, if I could ask for your indulgence in that respect.

We have received requests for the committee to hold regional public hearings. I would like to hear the wish of the committee on that issue.

But in response, I have told the people who petitioned for that that although it's not in my purview as Chair to prejudge what the committee would say, that we did discuss it at an organizational meeting and it needs to be clearly understood that this is not a government Bill; it's a private Bill. So the procedure is distinctly different in terms of the legislative review procedure and what happens with a government sponsored Bill versus a private Bill.

Because private members' Bills are dealt with always during the session, having public hearings in spots other than the seat of government would require 10 members to be taken away from House duty to travel the province and would also necessitate the travelling of staff with respect to *Hansard*.

So I gave an indication that the committee had briefly talked about this in their organizational meeting and had ruled out the idea of holding hearings anywhere other than in Regina. But if any members of the committee have other views at this point that they would like to air, I would invite them now. Are there any comments on that issue? Then I think I did interpret . . .

**Mr. Roy:** — Madam Chair, the requests, do they come from particular regions of the province, that these individuals will have a hard time coming to Regina? Was there a specific reason why they decided, or they felt, the committee should go out of Regina?

**The Chairperson:** — Well that was . . . essentially their reason is that coming to Regina necessitates a fair bit of travel for some people in other parts of the province, and of course the livestock producers at this time of year, people especially with cattle, are busy at home these days. And so I appreciate the difficulties that some individuals would have in making personal representations.

**Mr. Kowalsky:** — I move that the request be respectfully declined.

**The Chairperson:** — Are there any other discussions on that issue? All in favour of the motion? Opposed? That's carried.

We've also received requests for further hearings beyond these three days that are currently planned. I did explain that we didn't have any notion at the outset how many people would wish to come forward, so the three days, the 18 hours this week that we initially allowed for, was never intended to be the only time available. It was simply the initial time available until we were able to gauge the response.

So I would like to suggest that at the conclusion of this morning's proceedings,

whatever time that is, we have arranged our time in such a way that the hearings are in three-hour blocks. This morning there are two hours set aside for two major presenters and then we revert to a half-hour per presentation from there on. And we have allowed a half an hour in each block of three hours for going overtime — we're not going to cut anybody off in mid-sentence — and for people who present themselves at the door as walk-ins, if you like, who have not previously arranged with the Clerk to make a presentation.

So I'd suggest that at the conclusion of this morning, that the committee meet in camera for a few moments to discuss the matter of the extension of the hearings.

We have also received a request for witnesses to be represented by counsel and for counsel to be permitted to cross-examine other witnesses. And subject to the wishes of the committee, I intend to follow the current practice in legislative committees. This means that witnesses may ask counsel to represent them and present a brief on their behalf if they so wish. But counsel will not be permitted to cross-examine other witnesses. Witnesses will be questioned by members of the committee.

Is there any discussion on that issue by members of the committee? Any alternate views? If not, I would appreciate a motion to that effect.

**Mr. D'Autremont:** — Madam Chairman, I don't believe that the committee is structured in such a way to allow debate amongst representatives coming in, so I don't see why we need a motion about it.

**The Chairperson:** — Well I think you're probably right on that. I just wanted to have that on the record since the question has been raised to me in writing, and so I wanted it to be part of the written proceedings — the disposition of the question.

**Mr. Kowalsky:** — Well I'll move that we adopt the recommendation of the Chair with respect to that matter.

**The Chairperson:** — Any other discussion? All in favour? Opposed? It's carried.

Now the copies of the lists of witnesses in terms of the procedure for this committee have

been distributed. And as I said earlier, the first and the second presentation, the presentation by the petitioners and the presentation opposed to the Bill, are scheduled for one hour each, including questions.

And this brief procedural interlude will not reduce the time available, so there will still be an hour. And then there's one other witness this morning that has a half-hour time slot and one person who has indicated that they would like to speak if there is time before 12 o'clock.

So the people who have not made previous arrangements but who present themselves at the registration desk will be allowed to speak on a first come, first served basis. So I think that for this morning the time has now been completely allocated.

This brings us to the Law Clerk's report. And so to begin proceedings on Bill 04, I would call on Mr. Robert Cosman, the Legislative Counsel and Law Clerk, to report on the Bill pursuant to rule 69 of the rules of the Assembly.

**Mr. Cosman:** — Thank you, Madam Chairman. In compliance with the requirements of rules 64, 69, and 102, *The Rules and Procedures of the Legislative Assembly* of Saskatchewan respecting private Bills, I have examined Bill No. 04 of 1995, The Saskatchewan Wheat Pool Amendment Act, 1995, and I'm pleased to report that in my opinion it includes no unusual provisions except for the following items.

Item 1, clause 6 at page 4 of the printed Bill, headed part IV, coming into force, sets out at subclause (2) a somewhat novel method for proclaiming a provision of an Act into force. In fact a proclamation as such is not contemplated by the Bill but rather it is the happening of certain events as described in paragraphs (a) and (b) of clause 5 of the Bill that will bring the Bill into force, the effect of which is to repeal and replace The Saskatchewan Wheat Pool Act, 1980. The events are outlined in section 32.2 as being enacted by clause 4 of the printed Bill at page 3.

While the events described in section 32.2 are novel duties imposed upon the directors of the Saskatchewan Wheat Pool, the Clerk of the Legislative Assembly, and the director

appointed under The Business Corporations Act who acts as a registrar of corporations in effect, I do not consider this method of bringing a provision of an Act into force legally defective. Thus I would recommend that the Bill be found in order in regards to this point.

The second item I'd like to bring to your attention. The Saskatchewan Wheat Pool Act, 1995, the Act which will replace The Saskatchewan Wheat Pool Act, 1980, is attached as a schedule to the printed Bill at page 5 onward. This too is somewhat novel in that ordinarily the format of a new Act — that is the 1995 Act — would contain consequential amendments and repeal provisions respecting the former Act at the end of the new Act. But the novelty of the format is not fatal to the legal propriety of this Bill nor is it unprecedented. The Canadian Charter of Rights and Freedoms, for example, was a schedule to the Canada Act, 1982. I've, for the benefit of some members, attached that example.

Thus I would recommend the Bill be found in order on this point as well. Those are my deliberations, Madam Chairman. I thank you.

**The Chairperson:** — Are there any questions for Mr. Cosman? If not, we will now hear as a committee, representations for and against the Bill. And I would call at this time on the sponsor of the Bill, the member for Humboldt, Mr. Eric Upshall, to introduce the petitioners for the Bill.

**Mr. Upshall:** — Thank you, Madam Chair. Madam Chair, witnesses before you today are president of the Saskatchewan Wheat Pool, Leroy Larsen; the chief executive officer, Don Loewen; Lyle Spencer, chief financial officer; and Glen McGlaughlin, the executive director. Thank you.

**The Chairperson:** — Thank you.

**Mr. Larsen:** — Good morning, Madam Chairperson, members of the committee, ladies and gentlemen. My name is Leroy Larsen. I am the president of Saskatchewan Wheat Pool. I'm here today as the elected representative of 57,000 active Wheat Pool members to encourage the Private Members' Bill Committee to approve the amendments to our Act.

My presentation today will focus on our

strategy to safeguard the future financial viability of Saskatchewan Wheat Pool. We will look at why we need to change the financial structure and how we intend to accomplish that change. But to understand our financial restructuring plan, it must first be considered within the context of rapid, unrelenting change.

All over the world both private and public organizations are re-examining their roles and adapting to new realities and the challenges of a changing, competitive environment.

Across Canada and right here in Saskatchewan, difficult decisions are being made on a variety of issues to help secure a better future. Budgets and deficits quickly come to mind as the big items facing all governments.

In the private sector the issue is one of increasing competition. We at the Pool have been forced to consider the following challenges in our business. Global agri-food trade is now estimated at \$630 billion; the fastest growing segment is processed or value added products and services. The Canadian government has set a target for agri-food exports of \$20 billion by the year 2000.

Countries throughout the world are undergoing rapid economic expansion and are demanding improvements in the quantity and quality of our food. This greatly impacts the agri-food business. Competition is intense — so intense that products are being added to the grocery shelves at the rate of 21,000 new items every year. The competition becomes even more acute as governments move to deregulate the food industry.

Saskatchewan Wheat Pool has been reassessing its position for some time now. We have to change if we are to capture the future for our members and our cooperative. Nowhere is the need for change more evident than in the agri-food industry.

To stay in the game, Saskatchewan Wheat Pool has to find better ways of doing business. The Pool has to modernize and diversify and these changes require additional capital. Companies that don't adjust will fall by the wayside. It's as simple as that.

Saskatchewan Wheat Pool will not be one of those companies. Maintaining the status quo is

simply not an option, so we developed a bold financial plan. Financial restructuring is absolutely critical to the future of this cooperative. Some say this is the biggest change in the 70-year history of our cooperative. Others say it marks the birth of the cooperative of the 21st century. At the very least, it is one of the most exciting decisions ever made. A new financial structure that satisfies our need for capital will position Saskatchewan Wheat Pool to flourish in the competitive agri-food industry.

Why did we need a new financial plan? The answer is pretty straightforward. We must modernize, upgrade, and diversify today in order to compete in the years to come. Modernizing the country elevator system, upgrading facilities, and continuing the diversification thrust into value added businesses takes cash and lots of it. Our divisions would have no difficulty justifying expenditures of 3 to \$400 million right now. Unfortunately that is cash we simply cannot generate internally in such a short time frame.

Further, as a cooperative our ongoing equity payments to members currently result in a cash outflow of 20 to \$30 million annually. And because over 46 per cent of Pool members are over age 55, they are approaching the time when they will retire from farming and withdraw their equity. This trend will only escalate and cause the annual equity repayment obligations to increase. These issues are all converging at roughly the same time.

So to meet our obligations to members and to ensure a strong future for our younger and new members, alternative financing arrangements had to be developed. It was imperative for us to implement changes that satisfied the escalating need for capital.

If we had chosen to maintain the status quo, modernization may have been delayed and we may have been forced to turn our back on new agri-food opportunities. Business may have suffered, market share and earnings could have dropped, our financial position could have weakened, and our credit rating deteriorated. But we didn't opt for the status quo. This new equity structure will provide the financial resources necessary to compete both nationally and internationally. We will be able to strengthen our core business and continue our successful program of ongoing

diversification.

It is important to reiterate that we didn't just decide in isolation to change our method of financing. Changes to our financing were driven by the need to modernize, to diversify, and to meet our obligation to the members.

Our mission statement supports our strategy quite clearly, and I quote:

The Saskatchewan Wheat Pool is a diversified agricultural cooperative dedicated to improving the well-being of members through leadership and excellence in meeting customer needs.

Diversification itself implies change, challenges, and choices. We have a solid history of value added diversification based upon our core business. In 1973 we had three associated companies; today we have 20. In 1973 affiliated companies generated only 12 per cent of our earnings. In 1994 these investments accounted for over \$20 million of the \$40.4 million net earnings. That's approximately 50 per cent of all earnings.

Not only do the activities of Saskatchewan Wheat Pool provide benefits to our members, positive impacts are evident throughout the entire provincial economy. Just like other companies, the Pool continually looks for ways to increase earnings and to reduce costs. We use debt financing whenever it makes sense to do so, but without a new financial structure our prosperity would be limited. Neither increased earnings nor debt financing would deliver the level of capital we need to take us into the future.

So in developing our plans for a new financial structure, we established three criteria by which alternatives would be measured. First, the plan had to provide the required capital for the future without compromising our current obligations to members and customers.

Second, the plan had to provide a stable base upon which the Pool could grow without the burden of excessive debt.

And third, and perhaps most importantly, the plan had to allow the Pool to remain a cooperative ensuring member ownership, member participation, and ultimately member control.

So we evaluated a full range of alternatives. Everything from issuing special purpose shares to creating a holding company. We looked at preferred shares, limited voting shares, immigration funds, venture capital funds, community development bonds, annual membership fees, and a number of other options. None provided the kind of comprehensive answers we required. Either they would provide too little capital or would hamper the flexibility and autonomy we have come to enjoy as a democratically controlled cooperative.

The proposal before you however met all three criteria. The equity conversion plan approved by our delegates has been through the most rigorous evaluation possible. It has been analysed, discussed, debated, and finally approved by over 80 per cent of Pool delegates in July of 1994.

Why? Because it provides for the future. We will not be held captive by debt. And it allows the Pool to remain a cooperative under member control.

I have stated on numerous occasions that if there was a better alternative we would look at it. While there were some who criticized our plan, they have not provided solutions that would satisfy the Pool's long-term capital requirements. We believe the proposal before you today is the best.

Our existing share capital, approximately \$288 million, will be converted to a combination of class A voting and class B non-voting shares. The best way to illustrate our conversation process is to give you an example. Say that over the years farmer Smith had accumulated \$10,000 worth of Pool equity. On conversion, the first \$25 goes to the purchase of one class A voting share.

Only farmers will be permitted to hold the class A voting shares. These shares will essentially be non-transferable membership shares which will enable members to participate in the democratic process. Members will be limited to owning one class A share and will be entitled to only one vote. This ensures that the co-op's democratic structure will remain intact and that farmers will continue to control the Pool.

The balance of farmer Smith's equity — \$9,975 — will be converted into class B non-voting

shares, which will be listed on the Toronto Stock Exchange. These class B shares will increase or decrease in value depending on the financial results of the Pool.

Cash dividends will be paid on these shares when they are declared by the board of directors. They will be an eligible investment for RRSPs (registered retirement savings plan). They can be used as collateral for a bank loan; they may be transferred to a beneficiary as part of an estate.

The class B shares will be a liquid investment which can be purchased or sold at any time. The new class B shares will provide members with a wider range of financial options than they've had in the past.

When will the equity conversion plan be implemented? We have a few bridges to cross before that can happen. Our initial conversion is planned to unfold as follows after legislative approval.

An independent evaluation of our company is being completed. We will not proceed with the conversion of share capital unless the value of the existing shares currently held by our members is at least \$1 per share.

Once all the legal hurdles and financial requirements have been cleared, members will be advised of the value of their equity and asked whether they want to hold, buy more, or sell some or all of their shares. After members have responded, the Pool will act as intermediary for those who wish to buy or sell shares at an established fixed price.

Subsequent to the in-house matching up buyers and sellers, we expect there may be an opportunity for employees and other investors to participate in the purchase of Saskatchewan Wheat Pool shares.

Converting member share capital to permanent equity will have a substantial impact on the financial position of a company. Since our common shares are considered by credit rating agencies to be long-term revolving debt, it will be equivalent to reducing our debt by \$288 million, and simultaneously increasing our equity by \$288 million. But this process of converting existing share capital into a new class of shares will not result in any additional funding for the Pool.

However, new class B shares may be issued at some future date depending upon the Pool's need for additional capital. Any new shares would be issued and publicly traded on the Toronto Stock Exchange.

Financial restructuring is the engine which will propel our cooperative into the next century. It will give the Pool access to the capital it needs to upgrade and rebuild its core business — grain handling. And it will increase our ability to make further investments in value added businesses.

Ladies and gentlemen, it is important to us that you understand that once the financial restructuring plan has been implemented, the Pool will continue to adhere to certain fundamental cooperative principles.

The Pool's Act will be changed only to the extent necessary to permit it to raise equity on the capital market. The Pool will adhere to the cooperative principles of (1) open and voluntary membership; (2) democratic governance and participation; (3) commitment to service; (4) economy; and (5) cooperative education.

Although patronage allocations will be discontinued, class A shareholders will continue to be eligible for economic rewards in proportion to business transacted under various marketing incentive programs. They will also be eligible for cash dividends on their class B non-voting shares if the Pool continues to prosper.

Our new ownership structure will continue the model of cooperative definition, values, and principles, including open membership and democratic control.

Please note the current financial restructuring plan was democratically approved following extensive meetings and consultations with members. Through our consultation process, our members have had an excellent forum to present their views. And the course of action we've followed is in keeping with the guidance we've received from our board delegates, the farmer-owners of Saskatchewan Wheat Pool.

The Pool is not the first cooperative to choose this method of raising equity capital, and I believe that it certainly won't be the last. Other major Canadian cooperatives are currently

addressing their capital financing requirements and are seriously considering similar equity financing solutions.

During the past year I, along with other elected officials and senior staff, have travelled across the province, meeting and talking with our members. We have indicated on numerous occasions that in order to proceed with our equity conversion initiative, the following conditions must be met: changes to our legislation must be completed; our members must be ready for this change; valuation must produce a value for existing shares of at least \$1 per share; financial performance of the Pool must be satisfactory; and market conditions must be favourable.

The Pool is at a crossroads. Either we meet the challenge of change head-on or we continue with the status quo and risk endangering the well-being of the company and its membership. We have opted to meet the challenge. The proposed changes to our financial structure will help us to take an important step towards achieving the Pool's corporate mission. Our success depends upon hard work and our ability to stay the course. It means being true to the simple principles of good business, innovation, quality, integrity, and performance.

In essence, our decision can be summarized as being based on success in the past and optimism for the future. This plan provides a win-win solution for both the cooperative and its members.

Saskatchewan Wheat Pool provides essential services to its customers. It provides jobs, directly and indirectly. The Pool contributes millions of dollars annually to the economy of Saskatchewan, but it also contributes to something that money can't buy — the Saskatchewan way of life. As one of our recent advertisements said, we've been a part of the Saskatchewan landscape for over 70 years and we intend to be around for a long time to come.

Thank you very much.

**The Chairperson:** — Thank you, Mr. Larsen. Are there questions from members of the committee?

**Mr. Kowalsky:** — Well thank you very much,

Mr. Larsen, delegation. I have several questions which I would like to pose at this time.

Mr. Larsen, I expect that you yourself are a farmer . . .

**Mr. Larsen:** — Yes I am.

**Mr. Kowalsky:** — . . . and deliver to the Pool. Could you tell me how this will affect you personally as a farmer?

**Mr. Larsen:** — It will give me the freedom, with my investment in Saskatchewan Wheat Pool, to identify the investment that I want in that organization. Right now the investment I have there is basis the revenue I've received from patronage in the past and there are certain criteria which I must follow at which I can divest, or even increase, that investment in Saskatchewan Wheat Pool.

So it will give me freedom as a membership on the investment in this organization.

**Mr. Kowalsky:** — Right now if you were to retire as a farmer, would you be able to withdraw all of your equity?

**Mr. Larsen:** — If I sold my agricultural property, yes I could withdraw my equity from Saskatchewan Wheat Pool. That is one of the criteria for withdrawal of equity.

**Mr. Kowalsky:** — And so the Wheat Pool follows the same principles as the cooperatives around Saskatchewan, that is they mail out equity statements annually or on a regular basis?

**Mr. Larsen:** — Yes, that's true.

**Mr. Kowalsky:** — Now with the coming in of this new Act, will members be able to have a . . . will they have a choice of withdrawing either their equity, or will they have to convert it and then sell their shares? Or will members be able to withdraw their equity?

**Mr. Larsen:** — The in-house trading in essence will allow them to withdraw their equity if they wish to sell their shares. Their equity will be converted to the one class A membership voting share, and the remainder of their equity will be converted to class B shares. And it will be their decision, during the

in-house trading period, at a fixed price, whether they want to sell those shares, which in essence is withdrawing their equity. They can sell all of them, some of them, or buy more if they wish, or retain just the number that they have.

**Mr. Kowalsky:** — Who would they sell them to? Would they sell them to . . .

**Mr. Larsen:** — It would be an interchange amongst the membership that currently have equity within Saskatchewan Wheat Pool.

**Mr. Kowalsky:** — As an example, if a farmer now has \$10,000 worth of equity, would he be able to cash that in for \$10,000 cash?

**Mr. Larsen:** — Yes, at the in-house trading period, during the in-house trading period.

**Mr. Kowalsky:** — And would that happen regardless of the age of the farmer, or whether the farmer is continuing to farm, or not?

**Mr. Larsen:** — Yes, it would happen regardless of age or whether he was quitting farming or not.

**Mr. Kowalsky:** — And I want to ask some questions about the class B shares. Is there any time that these shares, the shareholders of class B shares, would be able to exercise some control over their shares? Or will they always be under the control of the class A shareholder?

**Mr. Larsen:** — The class A shareholder has full control of Saskatchewan Wheat Pool. There is a legal requirement, as I understand it, that class B non-voting shares can have a vote if there is a major investiture say, of Saskatchewan Wheat Pool, or something like that. They will exercise that right and will have that legal right to.

**Mr. Kowalsky:** — That is a provision under what? — The Securities Act?

**Mr. Larsen:** — I'm not sure. I'd have to check with legal counsel on that.

**Mr. Beke:** — These provisions are basic rights given under The Corporations Act.

**The Chairperson:** — Excuse me, Mr. Beke, would you mind using the microphone so that

the *Hansard* recorder can capture your comments.

**Mr. Beke:** — These are basic rights given to non-voting shareholders under The Business Corporations Act and are rights expected by securities commissions to provide minimum rights. And they really apply only when there's a fundamental change to the company so that the ground rules on which they invested are fundamentally changed. For example, here if there's an amalgamation where the control is taken away from the Wheat Pool through the amalgamation, that would be one example.

And secondly, if there is a sale of substantially all of the property, again understandably the people who would've invested would say, well you've changed the circumstances under which I invested.

And the third ground is if you changed the rights of existing shares, because you would then be automatically changing the rights of a class B. Again, you've changed one of the fundamental terms under which they invested so they should be able to get their money out at least, and that's what the minimum protections are.

**Mr. Kowalsky:** — Thank you. Is there a parallel protection for existing Wheat Pool members in the event that the company should . . . or undergoes a fundamental change? And I think there are those that are arguing that this is a fundamental change. Is there an existing parallel provision for the one that you have just described under current . . . under The Business Corporations Act or Co-operatives Act?

**Mr. Beke:** — Yes of course there is, because when the members set up this legislation originally — the present Act — they elected to use a delegate structure, a representative structure, instead of the business corporation format. And when they set that structure up, they reserved to themselves the right to elect delegates . . . (inaudible) . . . all of the power of the corporation in the delegate body.

Now this makes a lot of sense and is a greater right than, say, Imperial Oil shareholders have, for this reason: that you have district meetings; you have the delegates that become informed; they regularly participate extensively in being educated about the business affairs of the

corporation; and then they hold district meetings and have the membership come in and inform them in that fashion.

So the delegates under this Act, unlike an ordinary Business Corporations Act, are the only ones that can amend by-laws and they have total control. There is no business control of a wheat pool or a cooperative as there is, say, with major public corporations where management really controls it.

So the delegate structure was elected as a format which is a more informed democratic process than that existing for, say, Imperial Oil.

**Mr. Kowalsky:** — So it's my understanding that the delegate structure would still continue to exist within the Wheat Pool and at the same time then you would have this new structure, this new corporate structure, under the class B shares. In the event of a major change, whose authority prevails — the class A shareholders or the class B shareholders?

**Mr. Beke:** — Yes, you're right that all of the powers that exist, with the exception of those three where there's a fundamental change to the understanding of the investment by the class B shareholders, everything remains the same. And as the speech says and as the explanatory notes indicate, the Wheat Pool's been changed only to the extent necessary to be able to go public.

So the answer simply is that if there were going to be a sale of substantially all of the assets, that could only happen if the delegate body decided to do so by a two-thirds vote.

So all of these fundamental change . . . or to change the share structure, again it could only happen if the delegate body decided to do that. And that's exactly the way it is today. The only reason you give these class B shareholders these rights is that to that extent we've moved into the minimum requirements and protections for the class B shareholders which securities legislation require, and so we had to make that change. But that does not give the class B shareholders any say in terms of the day-to-day business operations of this organization. That remains with the delegate body and the directors they elect.

**Mr. Kowalsky:** — Well just so I don't misinterpret you now, my understanding of



what you said is that in the event of a fundamental change, if there is discussion amongst the class B shareholders, they would have the right to have a meeting and have their say and have a vote. However, that would still be subject to an override by the class A shareholders.

**Mr. Beke:** — It's the other way around. It never gets to the class B shareholders until the delegate body approves any of these fundamental changes. In order to make those three fundamental changes, you have to have the delegate body do it by a two-thirds vote and only then do you go to the class B shareholders for approval.

**Mr. Kowalsky:** — And if they don't approve?

**Mr. Beke:** — Well if they don't approve it by a two-thirds vote, it doesn't happen because you are really taking something away from those class B shareholders and you can't treat an investor in that shoddy fashion.

**Mr. Kowalsky:** — So the class B shareholders would actually have the veto then, but they would not be able to initiate a change?

**Mr. Beke:** — That's right. And remember that it's in those narrow areas where you're going to collapse the Pool by selling off all the assets, which is very highly unlikely to ever happen. Or you're taking away some of the rights that you gave to the class B shareholders when you represented to them a certain state of affairs to get them to invest in the first place.

**Mr. Kowalsky:** — Thank you. I have another couple of questions.

With respect to trend lines that you identified on page 2, age trend lines, could you identify for me, please — you say here that 46 per cent of Pool members are over age 55 — could you identify for me what that was, say, five years ago and 10 years ago?

**Mr. Spencer:** — We can, but we would have to get that information for you. We have information on what the situation was at July 31st of '94. I don't have any previous trend information with me, I don't believe. If you could just give me a second?

**Mr. Kowalsky:** — Sure, sure.

**Mr. Spencer:** — I will check to see if there is anything here. Otherwise we would have to get back to you on that.

**Mr. Kowalsky:** — One other question, with respect to that page, while they're looking at that. The current cash outflow I've identified as 20 to \$30 million annually, is this not done by delegate vote? That is that figure is adjusted is it not? You could pay out more if you wanted to or if the delegates voted to, or less — of course contingent upon what you had in the bank, but is that not the way its set?

**Mr. Larsen:** — Yes, the delegates make a recommendation to the board and the board usually carries that recommendation out. The number we are using there is a pay-out in the eligible categories; and those eligible categories, I can go over them very quickly, are to estates, members that have passed away; to those that have quit farming regardless of their age — if they quit farming, they can withdraw their total equity; if they reach the age of 65, they are eligible to apply for and start withdrawing their equity at 20 per cent of the balance in their equity; or when they reach the age of 70, they can withdraw all of their equity except for \$25 if they're still farming — that is still their membership share in Saskatchewan Wheat Pool. And they are paid in full from that time on. All of the allocation of earnings basis patronage is paid to those people in full once they reach the age of 70.

So that basically represents that number, and it has been our policy to make sure that we are current with the revolvment of member equity in the eligible categories.

**Mr. Kowalsky:** — Thank you, Madam Chair. I'll just wait for the response to that other question later on. Thank you very much.

**Mr. Larsen:** — Lyle has some information here.

**The Chairperson:** — Mr. Spencer has an answer?

**Mr. Spencer:** — I have some information, and it gets at what you were asking about. I don't know whether it covers it totally.

If we take a look at 1992-93, the total amount of equity that was redeemed to members in the

various eligible categories, as well as a 2 per cent revolvment to all members, that amounted to twenty-six and a half million dollars. Now that number diminished to 18.6 million in 1994 because there was no general revolvment; we just paid out the eligible categories.

Those eligible categories are estates, retirements, people who have reached the age of 65 and start to withdraw 20 per cent of their equity each year even if they continue to farm. People who have reached age 70 are paid out all of their equity regardless. We had \$18.6 million in that category in 1994.

If we go back to 1972-73, the total amount that was paid out, including a 4 per cent equity revolvment, was only \$7.4 million. And I have numbers for each and every year that show the amount of equity that was redeemed from 1972-73 up to 1993-94. What that shows is how the equity repayments are escalating on a general trend line upward. I have that available. To get a detailed age distribution for each and every year, I would have to see what's available back at the office.

**Mr. Kowalsky:** — So once again, just to make sure I'm not misinterpreting you, what you're saying is the trend line is such that the company is being drained of capital a little more every year because of the level of pay-outs towards farmers who . . . an increasing number of farmers either retiring or leaving farming. And these people are drawing a considerable amount of equity on an increasing basis.

**Mr. Spencer:** — Yes, that's correct. We could prepare a bit of analysis or simply give you a copy of this schedule so you could see exactly what is here. But essentially what has happened over the years is as the members retire from farming, either by virtue of their age or simply decide to leave earlier, but they are leaving farming, the amount that we are required to redeem annually in those eligible categories has increased quite substantially over the past 20 years.

And I guess just to add to that, to compound the problem, this is viewed as an obligation that should be managed by the organization. And it has been a policy, an unwritten policy, but certainly an attempt to try to redeem 4 per cent of that equity to all members annually.

And that way we would prevent the obligation from growing unreasonably.

In many years we have been unable to redeem anywhere close to the 4 per cent. There have been several years where we haven't had any general revolvment at all, because the cash resources didn't permit paying anything more than the payments to the eligible categories.

**Mr. Kowalsky:** — Are those figures something that is available to the membership or to the public — the ones you were just talking about?

**Mr. Spencer:** — I don't know whether they are published. Certainly this information has been available upon questioning at delegates' meetings. I mean we have volunteered that information. It's certainly available to you today. We can get a photocopy of this schedule if that would be helpful.

**Mr. Kowalsky:** — Thank you very much, Madam Chair.

**The Chairperson:** — Thank you, Mr. Kowalsky. I have on the speakers' list at the moment — Ms. Stanger, Mr. Roy, Mr. D'Autremont, and Mr. Knezacek.

**Ms. Stanger:** — Thank you very much for your presentation, Mr. Larsen. I'd like to . . . I have three short questions. The first one is under the cooperative principles and activities.

I wonder, Mr. Larsen, if you could explain to me how you can attain autonomy still, in the Pool, when you have the class B shares. As an investor of class B shares, I might consider this.

I would want to vote on the voting which I am allowed under The Business Corporations Act. And there are three instances, as the gentleman there told us, that we could vote on it. And you can't treat shareholders that have invested a great deal of money . . . you can't withhold this right to them. So I'm trying to get this straight in my mind, how you can say or how you can justify or what the plan is to still keep autonomy of the Pool. Because it would seem to me if the class B shareholders have the right to vote on their investment in three or four instances, it wouldn't quite be the same as it is now. But I may be wrong, so I'd like to hear the explanation of that first.

**Mr. Larsen:** — It is a structure that we are proposing in this legislation, the creation of the class A shareholder that has the voting power, the rights, and the democratic process that has always been part of the Saskatchewan Wheat Pool.

The class A shareholder can be held only by a farmer, agricultural producer. And the class B share is an investment share. And it is the structure that is different. When the class B shareholders make that investment, he knows the controlling voting structure of this organization. So that is the autonomy that we are talking about, with the exceptions that have been identified in the previous questions.

**Ms. Stanger:** — Well I understand that fully, the class A and class B. But I don't know if you can guarantee the autonomy of the Wheat Pool if the class B shares . . . They have certain rights, those under The Business Corporations Act. Unless I'm not seeing this clearly. You know, I'd like an explanation of that.

**Mr. Larsen:** — Well this is separate legislation. Unless I'm missing your question, this is separate legislation identifying the investment share that is going to be a part of this organization.

**Mr. Beke:** — Could I supplement that?

**A Member:** — Yes.

**Mr. Beke:** — I think the best way to understand is this illustration. The Wheat Pool under its present Act has existed for many, many years without any changes. Now assume that we make this change and we start to operate with class B's and class A's. The class B shareholder will never have a vote on anything, year to year to year to year. Only if we go to make a fundamental change where we amalgamate, where we lose control, and then you see, you're talking about such a horrendous change, it's in that limited area because you've changed the investment the class B shareholder invested in. And that's the only basis.

So the day to day, the delegate structure, all that continues. The class B shareholders don't even have the right to attend that meeting of the delegate body. We're going to have a separate meeting simply for information.

They'll get the annual report and so forth. So that maybe illustrates it better. That unless there's this fundamental change, then only their approval must be sought, but they don't initiate it. They don't have any say, except to be consulted about it.

**Ms. Stanger:** — Okay. Then my next question is, under the new shares, how will these shares be issued? Would it be a two-thirds vote of the delegates when you decide to issue new shares? And will this dilute the value of the class A shares any more or will it dilute it at all? Because if you increase the number of class B shares, how will that interact with the class A shares?

**Mr. Beke:** — Class A shares are a membership share.

**Ms. Stanger:** — Yes, yes.

**Mr. Beke:** — So you can't really dilute them because they're paid for with \$25. When the person wants to get out of the Pool, they get their \$25 back. So there can never be any dilution there.

Insofar as issuing the class B shares, that's in the discretion of the directors, just as it is now with the types of shares we have in the Pool now.

**Ms. Stanger:** — So it's two-thirds vote?

**Mr. Beke:** — No, no. Just the board determines they have to raise more money, they will go with a public issue. But it's simply an approval of the directors and that's not changed. The current Act is the same way.

**Ms. Stanger:** — Now you discussed . . . the first part of your presentation, Mr. Larsen, you said that you took a full range of alternative financial arrangements. You looked at the full range of alternative financial arrangements. And I don't expect you to go into detail here and take up the committee's time, but I'd really, if it's possible, I would like just a bit of paper on that, a couple of pages on that; and the alternative arrangements that you looked into if that would be possible.

**Mr. Larsen:** — Yes, we can provide that for you.

**Ms. Stanger:** — Thank you very much.

**Mr. Larsen:** — I want to respond, in addition to your previous question. You asked about the dilution of the value of the class B shares with the issue of a . . . a new issue of shares. We would only do that providing it's an investment that will add to the value of Saskatchewan Wheat Pool. We would have to provide, as I understand it, a prospectus on that new investment, whatever it may be. If it's in upgrading our country elevator system or if it's investing in value added or diversification enterprise, we would have to identify the value and the purpose of the need for that money, and therefore good business decision should say that it's going to be to the advantage of Saskatchewan Wheat Pool and a value to the owners of Saskatchewan Wheat Pool to use this additional capital.

**Ms. Stanger:** — Thank you very much.

**The Chairperson:** — Thank you. Before we move to Mr. Roy, who is next on the speaking list, could I just ask when you undertake to provide some written information in response to a question, if you could provide the same information to all members of the committee.

**Mr. Larsen:** — Yes, we will do that.

**Mr. Roy:** — Thank you very much, Madam Chair, and I'll try to make my comments brief because I know there are some other members who want to ask some questions.

Good morning to you, president and officials. I appreciated your overview here and your presentation on the background to this particular proposal, and certainly I can concur with some of the comments you made in the presentation — that there is a tremendous pace of change that we're seeing here in Canada, globally, and I guess nowhere is it more evidenced than in the agri-food industry. And certainly that presents a lot of challenges as well as opportunities for the Saskatchewan Wheat Pool.

However, notwithstanding those economic realities, I guess I'd like to focus in on the process that was used to make this particular decision by the Saskatchewan Wheat Pool, because I know myself personally that has been what has been brought to my attention by some concerned members of the Saskatchewan Wheat Pool. So I'd just like to focus in on that.

I wonder if you could briefly, President Larsen, just sort of illustrate to the members of the committee, as well as other individuals here, what is the process that you used — I know the process personally but maybe some other individuals don't — to reach this particular decision?.

**Mr. Larsen:** — Well I guess it goes back a number of years. The Saskatchewan Wheat Pool has a number of criteria with regard to finances of this organization, the level of working capital, return on investment and a number of those things.

And I guess it goes back as far as 1991. We could see some of the trends going the wrong way and not see the opportunity for that turning around. So we weren't meeting our financial objectives — let's put it that way — and we started some internal discussions. We were involved at the board level initially for discussion at looking at options — how can we strengthen the financial position of Saskatchewan Wheat Pool? And the fact that the equity revolvment could be an increasing burden to this organization.

So we started then looking at options and that's what I refer to in my remarks, and we'll provide the information on the number of things that we did look at. And we've had a number of special delegates meetings that shared this information with the delegates. Most of them, I would think, spoke to their membership and identified some of the concerns that we had going back a couple of years ago even.

And it was a little over a year ago that the board had a very serious discussion and looked at a number of options and decided that we would take again to the delegates the information that was put together to identify the need for adapting Saskatchewan Wheat Pool financial structure to the future.

It was following those special delegates meeting that the board last March decided to take this proposal, that is, the amendments that you're considering in this legislation, to the membership.

And prior to seeding, we had the delegates use various methods of communicating with their membership. Again following seeding, we had a number of public meetings all throughout

the province and spoke to as many of our membership as possible. And it was then decided to call the special delegates meeting in July where they approved by 80 per cent vote to ask for the changes to our legislation.

So that's the process we've been through.

**Mr. Roy:** — I read one of the guiding principles behind the cooperative is that it is democratically controlled by the members. I guess some would say, and maybe with some validity, that what is being proposed here is not a small decision to a cooperative, it's a fundamental restructuring of the cooperative. I guess I'm echoing the sentiments again of some of the members, is the most democratic decision-making process would have probably been a member vote. Was that considered, and I guess why was it rejected?

**Mr. Larsen:** — A member vote was considered. Our organization has always been structured on the representative democratic structure, and the membership have passed on to the delegates the power to . . . and the delegates have the power to make the kind of changes that are here. It has always been that way.

The consultative process I talked about before was with the membership. The delegates were communicating. And many of them came to the July meeting and said that I am voting on the basis of the feedback I have received from my membership. So there certainly was opportunity to instruct their delegate on how to vote.

As well as delegates, we come up for election every two years, and that process has been available to the membership as well to identify the person that they want to represent them in the structure that we've had.

**Mr. D'Autremont:** — Thank you very much. I'd also like to welcome you here today. Before I get down to the real meat of the question, I'd like to cover a few of the other issues.

According to your report that you have here in your package, the Wheat Pool has an asset base of \$618 million. How will this be affected by the conversion of the debt equity?

**Mr. Spencer:** — I'm not sure what you're getting at, Mr. D'Autremont.

**Mr. D'Autremont:** — Well okay. Will the assets of the corporation change from 618 million to something other than that when you move the members' equity from where it's at today, when you convert it into class B shares?

**Mr. Spencer:** — The assets of the organization aren't going to change. Right now the net assets of the company — that's the total assets minus liabilities — is the equity or the shareholders' equity. And that we have as just about \$400 million.

So what we're talking about here is a change that would see the share capital that we presently have being converted into two different types of shares. But it's really not going to affect the assets at all.

**Mr. D'Autremont:** — Okay, thank you. Your members' shares, class B shares, will roughly be about 400 million minus the value of the class A shares. You talked about, in your other little hand-out here, of a possibility of needing 3 to \$400 million in capital.

If you were to go to the markets with that kind of a share offering and — say — you generated \$400 million, would you not then have to double the amount of your profit to provide an equal amount of dividends to the class B shares that would be in place for the conversion, to what would be in place after an equity was issued, an additional public equity?

**Mr. Spencer:** — I think that there's a lot of areas that you've opened up there. But I think the quickest response is that if we were to decide to issue new share capital, there would have to be a good economic reason for doing that. One of the economic reasons would be the return on investment. And so that additional capital would generate additional earnings.

So we would certainly expect that the earnings would increase if we were to make additional investments in either capital projects or new investments.

**Mr. D'Autremont:** — But you would be increasing your assets with a \$400 million public issue of approximately two-thirds. So you're increasing it by two-thirds, but you would need to double your profit margin to provide the same amount of dividend return on

the class B shares though. Would that not be correct?

**Mr. Spencer:** — The assets would very well increase if we were to invest the funds that we received in — let's say — facilities like elevators or terminal facilities, new diversification projects. The asset base would go up. The thing that we would look at would be how much of that would we want to finance from internally generated funds. What would we finance with debt? What would we finance with equity?

It's not sort of a rule of thumb that every time that we need capital in the future that we would issue a new share issue. So we would certainly expect that the new investments would create additional earning which would be used to benefit the shareholders.

**Mr. D'Autremont:** — I'm just trying to determine if a public share offering would dilute the dividends payable on class B shares to members.

**Mr. Spencer:** — It shouldn't.

**Mr. D'Autremont:** — I would have some questions on that. Okay, thank you on that issue.

To carry on where Ms. Stanger was a little bit. If you are to go to the public for a share offering for the class B shares, what kind of attractions, inducements, would you be offering to investors to invest in the Pool? Would it simply be the opportunity for a return on their investment? Or would it be necessary to provide some other type of incentive for them to invest in the Wheat Pool because, in my opinion, you would be diluting to a certain extent dividends payable on the class B shares currently.

**Mr. Spencer:** — The kind of incentives that we would see that would encourage people to invest in the shares would be, first and foremost, confidence in the organization itself.

There would be the dividends, the cash dividends that we would expect to pay on those shares annually. And there's also, with optimism for the future, an expectation that the value of the shares will appreciate. That's basically what investors would look for: an income return and a share appreciation.

**Mr. D'Autremont:** — Okay, thank you. Mr. Larsen mentioned that class B shares would be available for use as collateral. Would the class A share be also available for that use?

**Mr. Spencer:** — It's only one \$25 share.

**Mr. Larsen:** — No, they are not transferable. They can only be redeemed by Saskatchewan Wheat Pool.

**Mr. D'Autremont:** — Okay, thank you. A number of people have talked about the delegate structure. Mr. Beke has talked about it. I wonder if you could walk us through — because there are a number of people here who are not Pool members and may not be familiar with it — step by step, starting at the local Wheat Pool committee and moving up the ladder all the way to the board level, on how the delegate structure works and whether or not there's remunerations in any of those positions.

**Mr. Larsen:** — Yes, I can start right at the membership. To have a membership in Saskatchewan Wheat Pool you have to be an agricultural producer or interested in agricultural production. That usually means owning some portion of land for agricultural production.

The membership elect the delegates. We have right now . . . what is it?

**Mr. Loewen:** — 133.

**Mr. Larsen:** — One thirty-three — 133 delegates in the province. The reason I had to ask that, it's changed just recently. And the membership in that subdistrict, based on their . . . the subdistrict elect that delegate. That delegate functions in that area of responsibility as most shipping points . . . or has been shipping points, what they call a committee that are elected by the membership as well.

There is remuneration only at the committee level to the secretary of that committee, and that I believe is \$10 a meeting. The delegate is paid on a per diem basis for the work that he does plus expenses that are a legitimate part of his activities for activity within the subdistrict and within the district.

We have 16 districts in the province. There is from seven to nine delegates in each of these

districts. And they, from amongst their own number, elect the director. So we have a board of 16 directors. They are remunerated. The delegates set the remuneration for themselves and for the directors. The directors are still a delegate as well as being on the board of directors. And it is amongst the 16 directors that they choose the president and a first and second vice-president as well as two executive members. The first and second vice-president and the president are on an annual salary. The rest are per diem.

**Mr. D'Autremont:** — The president and vice-president, the executive officers, are they chosen by the delegates or by the directors?

**Mr. Larsen:** — The president is elected by the directors, by the board of directors, and the two individuals that the board of directors hire to manage the company is our chief executive officer, Mr. Don Loewen at this time, and Mr. Glen McGlaughlin, the executive director of policy and member services. We have a two-pyramid operation structure.

**Mr. D'Autremont:** — The basis for the authority of the delegates, where does that come from?

**Mr. Larsen:** — The basis for the authority for the delegates? It is in the by-laws of the organization.

**Mr. D'Autremont:** — Thank you. Has this delegate structure changed since the inception of the Pool?

**Mr. Larsen:** — It has changed in numbers, and I guess at the delegates' discretion there has been some change in . . . the delegates have the power to change the by-laws, not the board of directors.

**Mr. D'Autremont:** — But has the Pool . . . not the Pool, the delegate selection structure and how they operate, has that changed significantly since the Pool's inception?

**Mr. Larsen:** — No, I would say it has not.

**Mr. D'Autremont:** — What are the duties of the delegates?

**Mr. Larsen:** — They are responsible to the membership within their sub-district. They are also responsible to the other delegates within

their district and within the province. They carry out the communication process within their own sub-district. And at the district level, they are responsible to their counterparts from the other sub-districts, and communicate with the director who reports to them and receives information from them with regard to activities within the district. As well, they are responsible to the total delegate body where they must take part in the delegates' annual meeting.

**Mr. D'Autremont:** — This communication, it's a two-way direction — is it? — that they would take communications from the local membership and committees to the directors and vice-versa take communications from the directors down to the local membership?

**Mr. Larsen:** — Yes, that's true. The communication process can take many forms, and it is through the committee activities. The committee will pass resolutions, either on operations, like gravelling the driveway at the elevator or whatever the request would be, to identify to the organization the need for some change or improvements. Or it could be in the form of an agricultural policy resolution that will come forward through the process. That resolution must be approved by the delegate at a district meeting to go forward to the annual meeting of delegates as well.

So there is a formalized process to go through with regard to communication from the membership level up through the organization.

**Mr. D'Autremont:** — Has the membership generally been satisfied up till this point with the operations of the delegate structure?

**Mr. Larsen:** — Yes, I think it is a very excellent process. The organization can reach into all four corners of this province, almost into every community in this province within a very short time frame to have that communication process take . . .

I want to correct a statement that I made regarding the power of the delegates comes from The Saskatchewan Wheat Pool Act and not from the by-laws. The delegates manage the by-laws.

**Mr. D'Autremont:** — Thank you very much.

**The Chairperson:** — Thank you. We're doing pretty well for time. An hour's up, but we've got

two more people who indicate they want to speak, and Mr. Roy wants to come back on one tiny point.

**Mr. Roy:** — Thank you very much, Madam Chair. I just want to talk about class B shareholders. Now they will of course not have voting privileges, or they will not be able to partake in the governance of the corporation. However, if there was to be a legal challenge by class B shareholders, what could possibly be the ramifications from . . . That's hard to, of course, interpret what might be the outcome, but could they potentially, at some point in time, legally force class A shareholders to accept them as part of the governing structure of the corporation?

**Mr. Beke:** — No, they could not because the structure is set in legislation. And the only way you change that is by an amendment to the Act.

Now if the majority and the controlling shareholders, through their delegate body, in some manner abuse the class B shareholders — for example, changed something so that they benefited only the class A to the detriment of the class B — then they could go to court to get redress and get the judge to make the board deal with them more fairly.

But those provisions — that is, what we call oppression remedies — exist under the present Act as well. If one group of the Saskatchewan Wheat Pool were being abused in some manner, the court is always there to provide a remedy so that there is fair treatment. But they can't change the existing Act; only the legislature can change the existing Act, which provides the voting structure that is there now.

**Mr. Roy:** — Thank you.

**Mr. Knezacek:** — Thank you, Madam Chair, and thank you to the presenting delegation. My list of questions has greatly diminished because of the other members asking pretty well the same ones. I do want to return though to an area that Mr. Kowalsky pursued there with regards to equity conversion, and a couple of quick questions here.

The equity that a producer or farmer has can be transferred to shares. Is that correct? If I've got \$10,000 worth of equity, I can convert . . .

**Mr. Larsen:** — To class A, \$25, class A, and all they need is one share.

**Mr. Knezacek:** — At that point, none of that is subject to income tax; is that correct?

**Mr. Larsen:** — That's right. The tax has been paid on it.

**Mr. Knezacek:** — If that equity is withdrawn, then income tax becomes a part of the . . . (inaudible) . . . or not

**Mr. Larsen:** — No.

**Mr. Knezacek:** — No? It never does?

**Mr. Larsen:** — There has been tax paid on it.

**Mr. Knezacek:** — Okay, so there's no deductions through that. And finally, I guess this I think has already been answered. If a farmer leaves farming or sells or dies or whatever, then that class A share is just dropped out of existence, right? I mean it's just one less . . .

**Mr. Larsen:** — It can be redeemed by Saskatchewan Wheat Pool as current membership in Saskatchewan Wheat Pool.

**Mr. Knezacek:** — All right, fine. Thank you.

**Mr. Langford:** — Yes, of course I'm like Reg; most of my questions have been asked. And I would say good morning to you, Mr. Larsen, and the rest of your officials here.

One thing I was wondering, okay, if you are a new farmer just coming on stream, can you buy A shares? If you're just a new farmer starting out, you've never farmed before, you come on stream, you're a farmer, and you become a member of the Wheat Pool, can you buy A shares?

**Mr. Larsen:** — Class A share?

**Mr. Langford:** — Yes.

**Mr. Larsen:** — Yes, one share.

**Mr. Langford:** — Okay, with changes, as a Wheat Pool member, can I get my shares . . . How do I get paid out my shares if I step down? Say, if I quit as a farmer, I'm not farming any more, and I've retired. Can I



withdraw my shares, and can I get all the money, my equity, out?

**Mr. Larsen:** — Under the current structure or . . .

**Mr. Langford:** — Under the new structure.

**Mr. Larsen:** — Under the new structure? Yes, the class A share can be redeemed, as your membership in Saskatchewan Wheat Pool now can. It is your choice what you do with class B shares. You can retain those whether you're a farmer or not.

**Mr. Langford:** — Okay, just one final question — assets. I've been questioned a lot on and hear people talk to me . . . is the assets that the Saskatchewan Wheat Pool holds right now. What happens to those assets?

I guess members are saying, you know, we've put money into it. We are the shareholders of it; we think that we should be able to get something out of these assets. Will they, if they step out, will those assets just go with the Wheat Pool, or is that shareholder to be able to be still part of those assets — say — if Wheat Pool is gone?

**Mr. Spencer:** — Well the assets are owned by the organization now. And as a shareholder, people have the opportunity to withdraw their equity when they leave farming; that's the present situation. So they don't . . . Nobody takes an elevator or any assets with them when they leave, but they do get paid cash.

And in the future the same kind of thing would occur. They would have the class A share. It would be their choice to request redemption of that, and that would happen. If they have accumulated class B shares over a period of time, those shares are backed up by the assets of the organization, but they certainly would not take the assets of the organization with them. But they would have the opportunity to sell those shares on the stock exchange.

So the asset that they would take with them when they redeem the shares would be cash.

**Mr. Langford:** — Thank you.

**The Chairperson:** — Thank you. Mr. Britton, do you have a question?

**Mr. Britton:** — Welcome to this committee. I can tell you it's quite interesting.

My colleague asked a question that I'm not so sure if you answered, but I would like to ask, and that is the role of the delegate, his responsibility to the membership in his own district. Is he duty-bound to let the members of his own district know about this reconstruction plan? And are you satisfied that it was done prior to the laying down of the Bill?

**Mr. Larsen:** — That is a delegate's responsibility to communicate with the membership that he represents in the sub-district. Of course something like that can't be guaranteed that he will do that. But a good membership then will replace him with another delegate the next time around — not too different from where you sit.

**The Chairperson:** — Don't get personal, Mr. Larsen.

**Mr. Britton:** — We get your point.

**Mr. Larsen:** — The only thing . . . the Saskatchewan Wheat Pool delegate has to go to the people every two years.

**Mr. Britton:** — But you're satisfied that was done as far as the delegation as a whole?

**Mr. Larsen:** — Yes, I am satisfied that the delegates have had very good communication throughout this process. And that communication is still ongoing, by the way, with regard to getting the understanding that is required for the change-over that is before this group.

**Mr. Britton:** — I have one more question, Madam Chairman. The delegate, then, in your opinion, is also duty bound to take the majority opinion of his members to the delegates' meeting and he doesn't vote his own personal viewpoint. Is he duty bound to represent the majority opinion in his own district?

**Mr. Larsen:** — No, he is not duty bound to do that, but he is supposed to be representing the membership there. And if for some reason he has taken an opposing view, he is going to have to explain why he has done that. Like many delegates come to the delegates' annual meeting with a position that their membership have identified for them to take forward and

take a position on. But if he gets some information that is contrary to what he has and, in his judgement, justifies him to take a different position, that's his responsibility as well.

**Mr. Britton:** — Thank you, Madam Chairman. I guess I phrased my question wrong. I think you answered it. What I should have said: is he supposed to put the opinion on the table at the delegates' meeting and defend that, rather than duty bound? Made it a little strong, sorry about that. But I think you answered the question. Thank you.

**The Chairperson:** — I just have two short little technical questions, I guess. One is, with respect to the ownership of class A shares, is a corporation, a holding company, or a farm corporation eligible to hold the \$25 class A share?

**Mr. Larsen:** — Yes.

**The Chairperson:** — The same rights as an individual?

**Mr. Larsen:** — Yes, as they are now.

**The Chairperson:** — Mr. Beke outlined three sets of circumstances which would involve the class B shareholders, and who determines what . . . who defines fundamental change?

**Mr. Larsen:** — That is always a difficult question. There are court cases over when do you reach the point when you're selling substantially all of the assets. Is it 75 per cent or 80 per cent? So that can be a disputed issue. However, the class B shareholders are . . . when there's an amendment of significant type to the by-laws, or something that affects them, they will get notice of it and they do have a meeting immediately before the class A shareholder meeting where they meet with the board and so forth. So anyone on the class B share list can contest if a decision is being made and they're being ignored.

But I want to reiterate that it is on those three narrow areas that are unlikely to even happen for a number of years. And when that is about to happen, it will receive a very great deal of publicity because it will be hotly debated among the delegates and so forth, as this issue is.

**The Chairperson:** — Right, okay.

**Mr. Kowalsky:** — Can I just ask a question pursuant to the one that you asked. In the event of a take-over attempt, say, down the line by a major corporation, would the decision for that take-over event would likely come to some kind of a decision through a decision-making process? Could you lead us through that decision-making process.

**Mr. Beke:** — Yes. That's a good question, because there is a great deal of publicity in newspapers about take-over bids and poison pills and all the rest of it.

That applies to a general public corporation. It could apply to Imperial Oil for example. It can't apply to this organization, because the class A shareholders are the farmer-owners of those shares. They're a membership share. And that's the only share that can vote about changing the ownership or selling off the assets.

So no matter how many class B shares someone may attempt to accumulate — and remember there's a 10 per cent ceiling on that — there is no way that you can, through the ownership of a class B shareholders, move for a take-over bid of this cooperative, simply because of the structure that's being imbedded in the legislation. It's impossible.

**Mr. Kowalsky:** — It's impossible because nobody can own more than 10 per cent of the shares.

**Mr. Beke:** — Well that's one of the features. But the class B shareholders don't have a vote to move in the direction of a take-over by a different organization. That control remains with the farmer-owner of the class A share.

**Mr. Kowalsky:** — Couldn't it be possible that a company could own . . . could gather ownership of say 90, even 100 per cent of the class B shares through its subsidiaries?

**Mr. Beke:** — No. Because the formula takes into account affiliates, and so 10 per cent is the limit including the affiliates of that organization.

But let's supposing that that could happen — it can't, because I guarantee it's imbedded in the legislation that they can't get more than 10 per

cent — it still would not give them any ability to take over the organization, simply because the voting shares are in the class A people.

**Mr. Kowalsky:** — Thank you.

**The Chairperson:** — Any further questions? If not, we've gone a little bit overtime, but I think it's very . . . I know it's very important for the petitioners to the Bill, have a duty just to state their case and to answer questions, and I think it's had a thorough airing of it.

I'd like to thank you very much for your presentation. Could I clarify one thing. When I spoke about your undertakings to provide written information at the request of a committee member, I think the procedure is to supply 15 copies to the Clerk who then will distribute them to the members and secretariat.

**Mr. Larsen:** — Yes, we will do that. I want to thank you very much for your attention this morning and the very good questions. My intentions are to be in the audience throughout the three days that you have scheduled for these hearings. Thank you very much for this opportunity.

**The Chairperson:** — Thank you very much, Mr. Larsen, and your associates.

Let's call a break until quarter to, but it will have to be sharp, sharp.

**The committee recessed for a period of time.**

**The Chairperson:** — Please come to order. Our next witness is the Co-operating Friends of the Pool organization. I'm given to understand that spokesman this morning will be Mr. Bruno Miller, and on his left is John Burton; on his right is Stewart Wells and Henry Kloppenburg.

**Mr. Miller:** — Thank you, Madam Chairman, members of the committee. As the chair mentioned, my name is Bruno Miller. I'm a farmer at Herbert, Saskatchewan, also a long-time Sask Wheat Pool member, at present on the Herbert Sask Wheat Pool committee acting as secretary-treasurer.

So in my comments this morning I will open the presentation and Stewart Wells, to my right, will be continuing with the presentation,

and John Burton will conclude the remarks in our presentation. So thank you.

Co-operating Friends of the Pool welcomes this opportunity to present its views to this committee on Bill 04 concerning the Saskatchewan Wheat Pool Act — am I coming through?

**A Member:** — A little louder.

**Mr. Miller:** — A little louder? How's that? Is that better?

**The Chairperson:** — There isn't any amplification. The speaker is just simply to communicate to the *Hansard* reporter so your voice has to . . .

**Mr. Miller:** — I see. I will have to speak up in other words.

If enacted and put in place, this Bill will have a profound impact on the fabric of rural Saskatchewan. Thus it is essential, in our view, that this legislation receive careful scrutiny by all concerned and that a full opportunity be given to all interested parties to make their views known to your committee and through you to the entire legislature.

The Co-operating Friends of the Pool is a registered, non-profit society made up of members of Saskatchewan Wheat Pool. It is financed by contributions of Pool members who are concerned about the direction the organization is taking. They're proud of Pool accomplishments over the past 70 years and believe it is well placed as a cooperative to meet the challenges of the future. We are opposed to the course of action it is pursuing now, and we know there are other options available to meet our future needs.

In the final analysis however, it is our view that only current shareholders of the Pool should make the decision on the fundamental changes embodied in the proposed amendments to The Saskatchewan Wheat Pool Act. We would accept the outcome of a direct membership vote after a process of fair and open debate.

A most unhappy series of events has led those concerned to the point where our concerns have to be addressed in this forum today. Many members of Saskatchewan Wheat Pool

are dismayed at the manner in which their organization has conducted itself over the past year. Activities have not been consistent with the long-standing commitment of the Pool to democratic principles — something that has been emphasized to members on countless occasions over the years.

Many members have lost faith in the Pool, regard their conduct as undemocratic, and regard the proposal before us as an abuse of power. You may well ask, why don't you, the members, do something about it? That is a fair question.

The response we have to give is that many members who are unhappy and disgusted about what has taken place have simply given up. They are just going to take their money during the in-house trading. They no longer feel any commitment to the Pool and they're going to take their business elsewhere in the future whenever they feel it is to their advantage.

Some feel the Pool is going to encounter financial difficulties and want to get their money out first; others have need for the quick cash. Many see that it will no longer be a cooperative. The end result will be the dismantling of an institution that took 70 years to build and has been a bulwark of strength to Saskatchewan and its rural community in particular.

On the other hand, there are many members who have not given up. They see even more need for a strong Pool in the future, functioning on the basis of democratic principles and synonymously co-operative principles. What we have witnessed over the past year has been anything but democratic. Here are some examples which we are prepared to support.

Incorrect or misleading information has been given to members about the equity conversion. The Pool studied this matter secretly for almost four years, then unveiled it to delegates the day after elections were concluded last year. Delegates were then given less than four months to make a decision. Consultations were held with members throughout the province during the busiest season of the year for farmers.

On the basis that there were no strenuous objections, Pool officials concluded that

members were prepared to accept the proposal. The Pool has indicated it examined 38 options to deal with its future capital needs, but it has refused to share any information on these studies. When members make suggestions they currently say: we looked at that; it won't work. Since the delegate decision in July, it has refused to engage in debate on the issues or hear representations to the contrary.

Thus the Saskatchewan legislature now finds itself in an unenviable position. It has been asked to enact the legislation that codifies decisions made by the Pool during the past year through a highly questionable process. There's a view that the legislature can't interfere with the business of the Pool, partly because it is their own corporate business and partly because it is so big.

We challenge that view. It is our contention that when the Pool brings its business to the legislature and asks the Legislative Assembly to pass a special Act concerning their affairs, it then becomes public business.

However difficult that may be for members, we contend that members have a duty and responsibility to examine this legislation to ensure that substantive issues of law are adequately treated and to ensure that adequate consideration is given to the economic and social ramifications of the legislation.

It is the firm view of cooperating friends of the Pool that members of the Legislative Assembly must make a substantive determination on whether the proposed legislation is in the public interest with particular attention to the implications for rural Saskatchewan. As well as noted above, consideration must be given to the process whereby the Bill reached the legislature in the first place.

Madam Chairman, I'll conclude my remarks and I'll ask Stewart to continue with the address. I neglected to mention in my opening comments that our chairperson, Mr. Lorne Cholin, whom I am taking the place of this morning is unable to attend this meeting here today for the simple reason he's a cattle farmer and the calving process is under way at his farm so he found it impossible to be here this morning. Thank you.

**The Chairperson:** — Thank you, Mr. Miller.

**Mr. Wells:** — Thanks, Bruno. Continuing then on page 3, within that framework we then wish to point to certain specific areas of interest that require consideration in examining Bill 04.

Number one, the impact on rural Saskatchewan could be devastating. Saskatchewan Wheat Pool has the most extensive elevator system in the province. Many points are served only by the Pool. While some of these elevators could not expect to be replaced when their useful life is ended, they have and still are serving a very important purpose. They enable thousands of Saskatchewan farmers to haul their grain and obtain other services within a reasonable distance.

This has been of great economic importance to these farmers. The continued presence of the Pool often found its roots in the principle of being a user-driven organization. Under the new capital structure, service to farmers will be incidental to the primary driving force of meeting the expectations of investors for returns on their investment.

Number two, the changes in the Pool can be expected to do considerable damage to the cooperative movement in Saskatchewan. Saskatchewan has prided itself on the accomplishments of the cooperative movement and its contribution to the economic and social fabric of this province. The Pool has been a key element of this picture. Some cooperatives owe their start to the Pool. It has contributed to many facets of cooperative activity. That cannot be expected to continue in the future under the proposed regime. Members of other cooperatives in Saskatchewan are now asking questions and expressing concerns about future prospects.

Number three, the Bill is flawed and does not reflect the express judgement of Pool shareholders. There are substantial departures from established legislative practice; example, the delegating of the proclamation. Some features of this Bill are in conflict with existing laws in Saskatchewan. It is a standard of corporate democracy that only the shareholders can bind the entity on a fundamental change. It is recognized that Pool delegates in reality are only a consultative or advisory body to the board of directors; yet for

the purposes of this Act, the board is parading a decision of the delegates last July as binding on all shareholders.

Number four, the interests of Pool shareholders must be protected. Pool shareholders have found it difficult to make any impact on Pool decision making. There are legitimate concerns about the legislation from both the future service and protection of investment perspective.

Number five, the Saskatchewan legislature and the Saskatchewan government have been involved in Pool affairs over a long period of time. While Saskatchewan Co-operative Wheat Producers Ltd. was first incorporated under The Companies Act in 1923, it was given a charter through a special Act of the legislature the following year, in 1924. That Act has been amended on numerous occasions since that time. In 1929 the Government of Saskatchewan came to the assistance of the Pool when it encountered financial difficulties and saved it from bankruptcy. Governments of all political persuasions have maintained close liaison with the Pool over the years.

The Pool's rationale for what it is doing is that it needs to generate more capital in order to remain competitive. The absence of a full and open debate on this issue frustrates many members who are also concerned about the future.

The core concern of Co-operating Friends of the Pool is that in the final analysis, members did not have the opportunity to vote and decide whether they wanted to see their organization make the kind of fundamental change that is envisioned. Such a decision can be made only after full and open consideration of the many options available. Members have witnessed the negation of the principle of democratic control which has always been so strongly touted by the Pool. We reject the argument that a delegate vote was adequate for this kind of fundamental change.

Furthermore we are very disturbed to note that the legislation will enable the Pool to do what no other corporation, cooperative, or non-profit society is permitted to do in law; that is, it will be able to make fundamental changes to the organization without the full and direct approval of its member-shareholders.

It is also ironic that class B shareholders will have the right to veto fundamental changes in the future, but current shareholders are denied that right. We urge the committee to take steps necessary to ensure that these contradictions are not left as they are now in the Bill.

We also find it preposterous that after all the assurances given by Pool officials that class A shareholders will retain control over the company's affairs, it has now been revealed that class B shareholders can gain representation on the board of directors after approval by two-thirds of the delegates. This was unknown to many delegates until it was pointed out to them after the Bill was tabled. We contend this provision also needs to be changed.

Co-operating Friends of the Pool has a number of major concerns about Bill 04. Most of them revolve around our concern about members' rights and democratic control.

Principal matters we wish to draw to the attention of the committee include, number one, it will destroy the Pool as a cooperative and will be a major blow to the cooperative movement in Saskatchewan and indeed across Canada.

Number two, it will change the Pool from an owner/user-driven organization to an investor-driven organization. This has profound implications for farmers, for Saskatchewan's rural communities, and for the Saskatchewan economy.

Number three, it will destroy the role of the Pool as a legitimate spokesman for farmers on farm policy.

Number four, it will seriously erode the ability of the Pool to act as a major pillar of support for the Canadian Wheat Board. In addition, from a business standpoint, the Pool is already in competition with the Board for grain.

Number five, who will really control the Pool? Management and blocks of non-farmer, class B corporate shareholders are the big winners. They will be the real power in Pool decision making.

Number six, the Pool has indicated it intends to pursue its diversification program further. This would appear to include ventures beyond

provincial borders and even outside Canada. By definition, this will involve risks and some losses. It means the returns on the Pool's existing assets will have to be used to provide dividends to investors. The ability of farmer members to protect their interests under the proposed structure is very questionable.

Number seven, unless there's a hidden agenda that has not yet been made clear, we doubt seriously that the new scheme will work, even within the framework of their new philosophy. In any case, it will do serious and irreversible damage to the Pool and the province.

Thank you. I'll let Mr. Burton continue.

**Mr. Burton:** — Madam Chairperson, we next turn to a discussion of the present situation as we see it. And it is useful to sum up the state of affairs as it exists at this time.

First of all, looking at the situation the legislature faces. The legislature has petitioned . . . has been petitioned to pass special legislation institutionalizing Pool decisions made after a highly questionable process. It has been requested to include certain provisions that contradict other laws, together with some unusual and questionable features. We'll be asked to strike patronage dividends and limited interest or dividends on capital out of existing legislation by a camouflaged process.

And it faces a curious dilemma. The new Act, if passed, won't become law unless the conversion is completed. The new Act could remain there indefinitely unproclaimed. A non-government agency, the Pool, would have sole power to proclaim a piece of legislation in the future, when circumstances may be much different. The growing reaction of many member shareholders could be directed against legislators.

And the Pool refuses to engage in further debate or discussion on the issue. Management and directors are spending huge sums of members' money on administrative, legal, advertising, delegate, and other costs in an attempt to rationalize their actions.

A growing number of members simply want to cash in their equity. Negative reactions can be expected to seriously erode market share.

Members refused to stand for delegate positions this year because they feel powerless and they feel the Pool no longer represents them.

The emphasis for in-house trading has shifted from member trading to purchase by outside investors. Pool officials state they have talked to every major investment dealer in Canada. There's a real potential that the majority of shares will be owned outside the province when this phase is completed. There's no guarantee ownership will remain in Canada in the long run. And it has just unveiled interest-free non-repayable loans to all employees to buy shares. Cooperatives were formed precisely to avoid this kind of unfairness to members and plundering by management.

Okay, the Co-operating Friends of the Pool. Our objective is to rescue the Pool and expand it as a cooperative to meet future needs, but we are frustrated by the spontaneous erosion of support for the Pool among members. We have launched a legal action, the object of which is to secure a full membership vote. The Pool is stalling and hoping the new legislation will get them off the hook. Pool officials refuse to debate the issue with us or others, and provide selective information or propaganda only, make misleading statements, and are spending large sums of our money to lobby and sell their scheme.

In our view, it would be a miscarriage of justice to pass Bill 04. On the other hand, it is obvious that extensive rebuilding and revitalizing is necessary if the Pool is to cope with future demands. Co-operating Friends of the Pool is committed to the concept of a strong and healthy Pool based on democratic and cooperative principles.

Our recommendations: Co-operating Friends of the Pool seeks a positive solution to the state of affairs, one that serves the best interests of Pool shareholders and serves the public interest. An approach is also required that takes account of the profound implications of the Bill for the entire cooperative movement.

Our preferred course of action which we recommend to the committee is as follows. One, do not proceed with the enactment of Bill 04 at this time, but appoint an eminent person or persons in the cooperative movement, acceptable to all concerned, to review the

future needs of the Pool as a cooperative and make recommendations on both its financial structure and its political structure. A recommendation to pursue such an approach would of course have to be reported back to the legislature for its consideration.

Two, if at some time now or later it is decided to proceed with legislation containing the type of fundamental changes embodied in Bill 04, steps be taken to ensure that the proposed changes are approved by a direct vote of member shareholders before they are implemented.

If in spite of our representations it is decided to proceed with the Bill, we strongly urge, without prejudice to the above recommendations, that the following changes be made in the Bill.

One, an amendment be introduced to require that before proclamation the Pool directors must submit a certificate stating that the changes contained in the legislation have been approved by a direct vote of member shareholders.

Two, the introduction of another amendment providing for a sunset clause in the legislation. This should provide that if the conversion and vote are not complete within six months after Royal Assent, the Act expires. Surely no one wants a situation like Parizeau is promoting in Quebec where action on the Act would hang like the sword of Damocles over everyone's head indefinitely.

Three, that clause 3(1)(c) of the proposed Saskatchewan Wheat Pool Act, 1995 — that's the brand-new Act — be deleted. As proposed, it states that the Pool is:

organized and governed by and adheres to co-operative principles in accordance with this Act and the bylaws.

Thus, since this proposed Act strikes out patronage dividends and limited interest dividends on capital, they are in law no longer recognized as cooperative principles. Similarly certain by-law changes could also by definition, under this clause, change currently accepted cooperative principles and make a mockery of them.

Four, enable the Saskatchewan Securities

Commission to have full authority to oversee the in-house trading provided for in The Saskatchewan Wheat Pool Amendment Act, 1995. As things stand, the commission would have no authority until the new Saskatchewan Wheat Pool Act, 1995 is proclaimed after the conversion is completed. Thus the commission would have no authority for possibly the most important segment of changes that would take place as a result of this legislation.

Five, remove the provisions that could allow class B shareholders representation on the board of directors.

And six, retain for the Lieutenant Governor in Council the power to proclaim the legislation rather than vesting that power in the Pool board of directors. The proposed revisions giving the board those powers is offensive to the principles of good government in Canada.

These proposals are presented in the spirit of cooperation. Be assured that it is our purpose to continue to work for a strong and dynamic cooperative movement which remains true to cooperative principles. The loss of the Pool as a cooperative would be a blow to Saskatchewan that must not be countenanced.

Submitted on behalf of the Co-operating Friends of the Pool. Thank you.

**The Chairperson:** — Thank you, Mr. Burton. If that concludes your presentation, we'll ask the members if they have any questions.

**Mr. Kowalsky:** — Thank you very much, Madam Chair, and thank you to the Co-operating Friends of the Pool for this submission. I have several questions which I want to ask. I think I would start by asking the vice-chair, Mr. Miller, you are a member of the Wheat Pool, I take it, right now and are an active farmer?

**Mr. Miller:** — Yes.

**Mr. Kowalsky:** — So from your own personal point of view, how is this legislation, the implementation of this legislation, going to affect you as a farmer?

**Mr. Miller:** — Well in the economic sphere, its effect on me as a farmer personally, I believe, is going to be substantial for the very reason that farmers traditionally and in this day and

age are cash starved. The possibility of getting some money that is tax paid and is out there, it's available, is going to be a great temptation.

The continued business with my business with Sask Wheat Pool will be restricted in the sense that I will not be running dividends on class B shares. My business that goes to the Pool as a primary producer will be earning dividends to outside investors. Basically that is the economic impact on me as a farmer.

The control of Sask Wheat Pool will pass from us as farmer- or producer-owners into the hands of the investor owners of our company. And that is a tremendous difference. For 70 years we in Saskatchewan as members and owners of Saskatchewan Wheat Pool will no longer have that privilege.

The investor owners will be the new owners of Saskatchewan Wheat Pool and they will also direct the policy of Saskatchewan Wheat Pool, regardless of any other statements made to the counter, for the simple reason those that own the shares in Saskatchewan Wheat Pool will be the owners of Saskatchewan Wheat Pool. They will dictate the direction of Saskatchewan Wheat Pool. Does that answer your question?

**Mr. Kloppenburg:** — Might I add a clarification, Mr. Miller? We heard this morning from Mr. Spencer, I believe, that there was a contemplated fund-raising or underwriting of \$300 million in the new equity for class B shares. If you will look at the material before you, the Saskatchewan Wheat Pool annual report for 1994, going to page 2, you'll see members' equity of \$399 million. When the conversion takes place, that members' equity will be reduced to \$25 times each member's equity plus the conversion.

Now I don't hold myself out as anyone who's been involved in equity markets in New York or Toronto, but I dare say that it takes little imagination to believe that if you have a group of investors, be they pension funds or be they consumer investors — and I suspect most of the investors participating will be pension funds and institutional investors — if you have the equity of a corporation held, \$300 million by a group of . . . I'll say for the most . . . \$300 million of class B shares, people who own it where the money was raised through the Toronto Stock Exchange. And you have



members' equity of around \$300 million. What I'll call the out-of-province or extra-provincial investors who are denied votes are not simply going stand by and be indifferent.

One has to remember that equity investors in any corporation demand a particular level of return, and a board of directors of any corporation, however constituted, has to look over its left shoulder and look over its right shoulder to make sure that the investment community is happy. And anyone who thinks that the Saskatchewan Wheat Pool can be indifferent to the thinking of the investment community and the judgements of the analysts has the kind of problem that someone who would believe the Canadian Pacific Railway was Santa Claus has.

If somebody owns half of your business, whether they've got voting shares or not — let's be quite candid — you've got to be sensitive to them and keep them happy.

Now let's look out the other scenario where the point was made that only 10 per cent of the shareholders or a maximum of 10 per cent of any block of shares could be held by a shareholding group. It's a well-known fact that corporate democracy is a bit of a laugh. At 10 per cent . . . and if two shareholders got together and own 20 per cent, they could come some considerable distance toward effecting control over the class B shareholders' block.

It's also a very interesting situation to muse on. If the delegates in their wisdom felt intimidated by an investor block in the private sector, if they could be persuaded to allow two class B type directors, not that class B implies a judgement of them, but class B voted directly, wouldn't it be an interesting situation to have two Trojan horses from the investment community in New York elected to the board of directors of the Wheat Pool?

And exercise one's imagination one step further. What if those shares were beneficially held for Cargill, and that's not an impossible situation. At 10 per cent at \$300 million is not a large sum of money for Cargill's to manage; it's probably spare change. So literally we have a situation where Cargill and other players in the international market could achieve positions in the board of directors in the Wheat Pool.

And I think it's also fair to say, as Mr. Upshall

put it at the meeting that CFOP (Co-operating Friends of the Pool) had with them, that this is the first step toward the privatization of the Pool. And the point that CFOP makes is that, if that's so, let's make it a public issue. And let's have this committee and the legislature call a spade a spade. Make it a privatization issue which is what we're seeing here today. Thank you.

**Mr. Kowalsky:** — We'd like to get back to the questioning with respect to how it's going to affect you, how this Bill would affect you. It's my understanding that the delegates and the management of the Wheat Pool . . . the biggest motivation is that they want to be able to convert share capital to permanent equity thus being able to clear their books of permanent debt and turn it into an equity, claiming that this then would give the company the power to function in today's market. How do you feel that this would affect you as a farmer personally? Would it enable you to overcome some of the market forces that are prevalent now — for example, the demise of the Crow — through an agency, the new agency of the Pool, which they claim would have more flexibility in the market? Or do you feel it would make it tougher on you as a farmer?

**Mr. Miller:** — Thank you. Really that's two parts to the question. The one is the assumption that equity is debt. That is a fallacy. In a cooperative, equity is the lifeblood of the cooperative. If equity were a debt and a detriment to our cooperative in the past 70 years, we would have long ceased to exist. Equity is the revolving fund within the company, and the higher the debt/equity ratio is in a cooperative, the stronger financially that cooperative is. It needs the equity of the members. This is the members' investment within the company. That equity revolves; as we pay out equities, new members come into the organization, and it's a continuing thing.

Equity in fact is not based on me as an individual owner of Saskatchewan Wheat Pool. The equity that I earn came out of the land base that I operate on. Once I am gone that land base is still there, is still a potential earner for production products to be handled by Saskatchewan Wheat Pool. That same acreage base, whether it's me or somebody else, still requires inputs, and that acreage base will be operated by somebody that

requires inputs, that has production that is going to need the services of Saskatchewan Wheat Pool.

Equity is not a liability for a cooperative.

**Mr. Kowalsky:** — If there's an increasing drain on the Wheat Pool due to equity withdrawal, does that not threaten new farmers coming in with the possibility of the Wheat Pool just not being able to meet its financial obligations and being able to expand in the market?

**Mr. Miller:** — Yes and no. It depends on how our company is being managed. The figure that the 50-and-over age group in our company is going to put a large drain on the financial resources of our company really isn't so. I don't have the figures before me, but 50-and-over age group has not the overwhelming equity ownership in our company, not at all. I believe it's somewhere . . . Can you help me out on that?

**A Member:** — 36 per cent.

**Mr. Miller:** — 36 per cent of the equity. That means the middle-aged group and the younger group are the major owners, have the major equities in Sask Wheat Pool.

I do not see that a \$18 million pay-out for our company is an overwhelming burden for our company. As a matter of fact I think it is one of the things that makes our company attractive to us as farmers, because we build our ownership through the years within our company — it should not be considered a liability.

**Mr. Burton:** — Let me speak further, Madam Chairperson, on Mr. Kowalsky's question. I have some difficulty with the proposition that I keep hearing advanced that the Pool equity is in fact a form of debt and that's how the credit agencies treat it. I'm not questioning that there are credit agencies who have that view.

However every year the Saskatchewan Wheat Pool produces its financial statements. That is the responsibility of management and would be under the direction of the chief financial officers of the corporation. They produce those financial statements; they are audited by a firm of chartered accountants. They are reviewed and approved by the board of directors and then signed by two members of the board of

directors. And those financial statements consistently show shareholders' equity, retained earnings, and members' equity.

Now if there's something wrong with the concept, I'm sure that somewhere along the line it would have been shot down. But that's the way it's always been maintained. And I think properly so. And the fact is that I thought the Saskatchewan Wheat Pool was formed in the first place so that we wouldn't be living by some of those rules.

And as well there's concern about this is a drag on the company because there are going to be increased pay-outs. Yes, there will be some increased pay-outs, I think that's undoubtedly true. I think there's also a prospect for some increased earnings.

And I'm surprised that we didn't have more comparative data on a historical basis dealing with some of the issues that were raised earlier this morning. Because there have in almost every year — okay, a few exceptions, like I think it was 1988 — there have been more dividends that have been allocated to share capital than the pay-outs that have been made.

And okay, that can be checked on the record. There have been some years when it was the other way around. But the fact is that between 1990 and 1994, the membership equity of Saskatchewan Wheat Pool went up from 340 million to almost 400 million, as was mentioned earlier.

Now that may not be enough — maybe there's still some problems to deal with. I don't argue that and I think in everything that we've said, we have recognized this, that yes, there are probably problems and there are problems that need to be addressed. It's the way they're being addressed that we take issue with.

Also another element that I find curious, there seems to be constant reference by Saskatchewan Wheat Pool to the effect of their equity being looked on as debt and that the credit agencies have difficulties with this. Well something's funny here. They say on the one hand that they don't want to go too much into debt, that there's a limit on the amount of debt that they want to undertake, and I can understand that statement. But on the other hand, they say as well in some of their literature that was distributed last summer, no,

no, we have no plans to go into debt. But still we're concerned because this is what the credit agencies are saying about us.

Well somehow or the other, the Saskatchewan Wheat Pool has lived for 70 years, gone through some incredible problems at various points in its history, and has managed to survive and is today a very strong organization with an impressive record. I think no question about it.

And yes, we have to gear up for the future and we don't take issue with that. But we do take issue with the plan that the Pool has put before its members and its delegates of how to go about it.

**Mr. Wells:** — Can I address that same point about the equity being a potential drain?

**Mr. Kowalsky:** — Madam Chair, I'm open to it.

**The Chairperson:** — Yes.

**Mr. Wells:** — I think we have to look, when we're talking in terms of \$20 million or \$26 million potential pay-out of equity, we've got to compare that to the dividends which the board would like to be able to pay to potential investors on the shares. And so if we have 300 or \$400 million that will be converted into shares, the board has said that it would like to be able to assure investors of a minimum 3 per cent dividend. This in itself amounts to millions of dollars. And last year and this year the numbers wouldn't be too much different. Might be a potential \$20 million pay-out to eligible categories under the present system and a potential 18 to \$19 million, depending on how many shares are actually purchased, which would offset that in the new system. So the potential outflow of cash, I think, is still there in either scenario.

**Mr. Kowalsky:** — Okay. You make two recommendations. One of the recommendations is that proceed with a . . . that we ensure that the proposed changes are approved by a direct vote of the membership or the member shareholders before they're implemented. Is it not true that the power is now vested in the delegates, according to the Wheat Pool Act?

**Mr. Wells:** — I think that's something that Co-operating Friends of the Pool is currently trying

to address through a legal action.

**Mr. Kloppenburg:** — There's no question that on looking at the section of the old Act, that the delegates are able to deal with day-to-day issues, the ordinary operations of business. But in my opinion, which I gave to my client, I found it remarkable that you could have an organ of a corporation, namely the delegate body, have the power to undertake a fundamental change in the cooperative.

Now let me go back again to when I say fundamental change or shareholder . . . (inaudible) . . . the concept of the Pool has at the heart of it, Madam Chair, Mr. Kowalsky, the concept of patronage dividends. And I told my client that I considered that patronage dividends was a fundamental principle or a cornerstone or a building block of the Saskatchewan Wheat Pool.

It is perhaps ironic that the Pool subsidized me to go to a co-op school in June and July of 1961 where I picked this up. And that's part of the Saskatchewan entrenched wisdom, that the law of patronage dividends require the acquiescence of the Pool. So I told my client that that was the case.

Now I told him also that I did not consider that the delegates had the power to make a fundamental change in the Pool which would have the effect of overturning that basic principle of patronage dividends. Now that's a question of law as to whether a group of 128 people could overturn the established principle of patronage dividends and overturn the fundamental character of the Pool, which everybody who belongs to the Pool has bought into.

Now delegate structures such as the cooperative structure of the Pool as it now stands, are really quite unique. I've looked through some of the on-line law services to see if there's anything like it in Australia, New Zealand; I haven't found it. And that's not to say it doesn't exist. So there isn't a book that you can pull off the shelf that gives you the answer.

The opinion that I had to give to my clients was where there's a fundamental change, I doubted very much that a delegate body could make such a fundamental change; and particularly where that fundamental change might amount

to shareholder oppression, where there are a significant number of shareholders who believe in the cooperative, the cooperative ideal of patronage dividends, and those patronage dividends are being taken away.

Does that answer your question?

**Mr. Kowalsky:** — Well it does more than answer my question.

**Mr. Wells:** — Could I add a little bit to that, coming at that from a different angle, the whole idea of delegate authority. I think that was the original question.

I was a delegate from 1990 until 1994. And on numerous occasions the delegate body at annual meetings would pass resolutions by more than a two-thirds majority. These resolutions were acted on or not acted on at the discretion of the board.

And when it would be a particular resolution that I was interested in and it would pass, and then the board would decide not to act on it, sometimes I would ask the board, you know, for their justification. They would tell me that when the delegates had passed a resolution, it then became a recommendation to the board. And the board was not bound in any way, shape, or form to actually carry through with the wishes of the delegates.

And so I think that's a different way of looking at that same question.

**Mr. Kowalsky:** — Is there any precedent where there may have been a member vote on an issue within the Wheat Pool in the last 15, 20 years?

**A Member:** — Actually that's a matter of historical data. And I think Mr. Burton is the man who's done the historical research on that.

**Mr. Burton:** — A book on the history of the Saskatchewan Wheat Pool in its early years by S.W. Yates provides an account of a vote that was held, a membership vote, and this was on a policy issue in 1930. Ballots were distributed to the entire membership of Saskatchewan Wheat Pool. There was something like, I believe, 57 per cent returned. And the officials of the Pool took note of the results of that vote on the particular issue that was being put

before the membership.

But yes, there was a vote in 1930. There is provision in the by-laws at the present time whereby a vote could be held. It may not be . . . oh thank you, somebody provided it. I've got the book right here that provides some of the history of that. I won't go into the particulars right now, but it is set out in this little book by Mr. Yates.

**Mr. Kowalsky:** — Were the results of the vote adhered to?

**Mr. Burton:** — I believe they were. I haven't researched that entirely. I'm told that they were.

**Mr. Kowalsky:** — One other question, and that is your recommendation no. 1 that asks that the government appoint an eminent person or persons in the cooperative movement acceptable to all concerned. So do you have any advice as to what type of structure this would have? This would be completely new to me, and I'm not sure how a government, even if it decided to do so, whether we'd have any authority to make that type of an appointment that would give this person authority to do something like that. Do you have any . . . Have you considered any way whether this is possible? Whether this is within the realm of . . . The government first would have to pass a Bill of some sort to authorize themselves to that.

**Mr. Burton:** — Well at this time, Mr. Kowalsky, I can't provide you with any precedents for something comparable to what is being suggested here. Certainly the government has undertaken all sorts of studies, or there have been joint studies where there's been an understanding with the interested parties, and that obviously would be necessary in dealing with something like this. But we do have an area of government that is concerned with cooperatives. It was a department at one time. It now exists as a branch of a department and of course in terms of managing activities that could be handled through such an agency.

But I think really essentially what we're looking at is a process whereby those people who are involved as legislators and are involved in the government would want to consult with the Pool and any other interested parties where this is deemed suitable and see if an

arrangement could be worked out where a special study could be carried out, whether it was as a task force, as a royal commission, or any number of other kinds of bodies. You know, the name doesn't make that much difference, but if there's a desire to study a subject, a way can be found.

**Mr. Kloppenburg:** — Madam Chair, I think The Public Inquiries Act might avail itself for that purpose.

Secondly, we also have in the history of Saskatchewan another issue which is perhaps comparable in the sense of the feelings it has aroused. In 1962 when the medicare crisis was boiling, the government brought in Lord Stephen Taylor from England.

I'm not suggesting that it's a comparable, but they brought in an individual from outside who attempted to draw the positions and to mediate. And we're really talking to a kind of a person who might write a mediation or a conciliation report, and that certainly might be achieved by order in council under different pieces of legislation.

And we had of course — this is again not comparable perhaps, but it is an illustration — that where there was a conflict and the government wanted to substitute an independent judgement or a perceived independent judgement with the upgrader business, the cooperative upgrader, NewGrade, retired judge Estey was brought in, who looked into the issues.

We have the example of Emmet Hall who is a retired Supreme Court judge who was often brought into many issues and many areas to investigate and to mediate, and appointed by order in council.

So that could be done, I believe. It need not be done in any formal, legalistic way if there was a will to cooperate. And I haven't looked at The Public Inquiries Act today but I believe that would be an acceptable vehicle.

**Mr. Kowalsky:** — Thank you very much, Madam Chair.

**Ms. Stanger:** — Thank you very much for coming out to Regina to give us your views. I have four short questions. How have the activities of the Pool been undemocratic in

your view?

**Mr. Miller:** — I'd like to make just a brief comment on that question. Undemocratic in the sense that we have not had the opportunity to debate the question. Now it was mentioned earlier, in one of the reports, that there were consultations or consultative meetings. They were in no way consultative. The meetings that were taking place out in the country last spring were a selling job by the management of Sask Wheat Pool to promote the proposed change to the membership.

Any consultation that was done was inadequate in the sense that we didn't have the information. I don't believe our delegates had the information at their disposal to make a decision of this type. The meetings that I attended, information meetings in the Swift Current area, two as a matter of fact, Don Loewen, Leroy Larsen, Lyle Spencer were present at these meetings.

The opposition to the proposal at these meetings was overwhelming. I did not hear one farmer speak in favour of the proposed change. There was an adamant rejection of the proposal out in the country. Yet we hear our officials within Sask Wheat Pool coming out with statements stating, oh there are small pockets of resistance but that is to be expected.

The meetings were not consultative. It was an undemocratic process.

**Ms. Stanger:** — Okay. What incorrect or misleading information has been given to members?

**Mr. Burton:** — Madam Chairperson . . . Okay, I'll give one example of some misleading information today. And that is that in the presentation prior to ours, reference was made to the fact that 46 per cent of the current membership are over the age of 55. Okay. That figure has been emphasized over and over. Okay.

The figure in itself is correct. But what I find has been omitted on every occasion that I've heard reference to this is the fact that those 46 per cent of members hold only 36 per cent of the equity in the Pool, a significantly smaller amount of equity.

Now maybe there's still a problem in that regard. Okay, fine. Then let's address it. I have no argument with that. But why is reference only made to the 46 per cent and not the 36 per cent? And I was surprised when I heard it here again today.

I think if we look at this pamphlet we can find examples here as well, that I think tended to mislead members. And I'll take one example -- the questions and answers which was circulated to all members. Question 24: "Will Saskatchewan Wheat Pool still be a co-operative?"

And it goes on to talk about the history of the Wheat Pool. It says:

For the last 70 years the Pool has conducted business in accordance with co-operative principles.

After conversion, the Pool will continue to adhere to certain fundamental co-operative principles which are included in the draft legislation.

Well that sort of tends to allay any concerns that people have. When you read the words very carefully, yes, you can find. When they say that word "certain," that is a very significant word. And it is quite clear from the legislation, from what's been said up to now, what has been said today, that there are some cooperative principles that all of us have always regarded as being key cooperative principles, are no longer going to be regarded by the Pool in the future as fundamental principles if this legislation is passed.

And there's another element as well. The question was asked on page 9: "Can control of the Pool be changed?" And it says, okay, as has been stated repeatedly, that:

The right to direct and control the Pool resides directly with the delegates because they elect the Board of Directors. The draft Act does not change this because the class A shareholders alone elect the delegates from among their membership.

Correct. So then when we found this provision about the class B shareholders possibly getting representation on the board of directors as was revealed in the explanatory notes to the

Bill that is now before you, has anybody ever said this before?

And finally we looked at . . . and then we looked at that last paragraph. And if you read that very carefully, you can see that while it says nothing about that sort of thing, in fact that provides the loophole where they can say, well we didn't make any incorrect statements.

But I suggest it was certainly misleading when they said under the draft Act, only the delegates can approve an amendment to the new Act or by-laws which would change the existing control. And okay, most people would say normal business, and a lot of people have trusted the Pool for years because of past performance, and they thought, well okay, things are okay.

But nobody dreamed, including most delegates, I submit, that there was any chance that class B shareholders could in any way gain representation on the board of directors. And some of us have been engaged in, shall I say, vigorous discussions with a few delegates in the last few days where it took some effort to finally persuade them that, yes, gee whiz, class B shareholders may get representations on the board of directors, and in fact there's no limit in the proposed Act as to how many directors they might eventually get on the board of directors.

**A Member:** — And, Madam Chair, one other interesting issue. One can mislead by non-disclosure as well as by direct act. And that is that we've heard nothing today about the application of Ontario's securities law or the Toronto Stock Exchange rules or the insider trading rules that apply. There may happen a fundamental change in the flow of information between the board of directors and the delegates because the trading rules and the insider trading rules and the rules of the Ontario's Securities Commission will force onto the Pool the Ontario cooperative model in terms of the flow of information.

So the board of directors will have to maintain certain levels of secrecy and non-disclosure in dealing with their delegates, which they were not obliged to observe before. And of course if you look at the Act, the present Act and the old Act, the securities Acts didn't apply.

So that fact in part enabled the board of

directors, when they chose to do so, to be candid and forthright with the delegates and have an advisory role. The ability of the board of directors to be candid with the delegates and to tell them what their strategic plans are and that sort of thing, may well be substantially inhibited by stock exchange rules, Ontario's Securities Act rules which come down on top of you the minute you make a share issue in another jurisdiction. And once you make a national share issue on the Toronto Stock Exchange, you've got to play by the Toronto rules.

**Mr. Burton:** — Could I just make one more comment, Madam Chairperson, on the question that Ms. Stanger asked. That is, okay, this pamphlet to which I have referred and I think most of you have seen, the question and answers pamphlet shows a happy, smiling farmer on the front who's all ready to convert all of his shares.

Well I am informed that that happy, smiling farmer is one Allan Ganshorn of Rowatt, Saskatchewan, just south of Regina. I'm also informed that he's mad as hell that his picture was used on this pamphlet because he doesn't like what the Saskatchewan Wheat Pool is doing.

**Mr. Kloppenburg:** — An invasion of his privacy.

**The Chairperson:** — I need to interject at this moment to share with you a little problem that we have here. Our hour is up, and I don't want to cut off debate or questioning, but we also have one other witness on the agenda that has come a very long distance and that is on the agenda, that we should hear. And we run into real problems going overtime because we've got the legislative session, and the bells ringing and so on and so on.

And so we could sort of be pithy . . .

**Ms. Stanger:** — My questions are pithy. Okay, would you elaborate on the premiss that under the new structure proposed and the changes to the Act, will make farmers serve as incidental to expectations of investors.

Would I be wrong in assuming, if farmers are not served well by Saskatchewan Wheat Pool, the Saskatchewan Wheat Pool will lose business and everyone will suffer? In other

words, if the Pool does not serve rural Saskatchewan, it will not survive. Could you please comment on this?

**Mr. Wells:** — I think what we're trying to say there is that someone in Toronto or Hong Kong is an investor. Now someone who owns class B shares has purchased those shares just in order to make money, for an investment -- long term, short term, whatever. And they are not going to even be aware that there is a Saskatchewan Wheat Pool elevator in my home town of Rush Lake. They won't be aware of that; they won't care if it exists or not.

And so there's a conflict there. I'm a farmer at Rush Lake; I care whether that elevator is there or not. And the only necessity for Saskatchewan Wheat Pool to keep that elevator there is if it is in some way helping to generate excess profits that can be shared with the investor in Hong Kong.

Well there's I think some numbers to substantiate that Saskatchewan Wheat Pool grain gathering system can in fact make more money by serving less communities; fewer elevators in fewer communities, but forcing the farmers to haul grain longer distances.

Now when it comes to charging the elevation tariffs and what not for that, if Saskatchewan Wheat Pool is no longer sharing its profits directly with its members the way it does now under a real cooperative system, then they have no reason to keep their charges down any lower than any other company. All they have to do is meet the competition at that particular point.

And so there's no longer a trust relationship between that producer and the Pool, and the Pool's overriding concern will be to make the profits to service that investor in Hong Kong. And if they can find ways of doing that that leave some farmers out, regrettably they'll have to take that position. They may not want to do it, but they may be forced to do it.

**Ms. Stanger:** — One last question. If farmers convert their equity to type B shares, they will receive a return on their investment; isn't this right?

**Mr. Wells:** — I guess it depends. I think, as far as I know, the minimum return on the shares is at the discretion of the board of directors of the

organization. So if in fact share price drops in Toronto and the board decides not to declare a dividend, as far as I know there will be a loss on those shares. I don't think there's any legal requirement for them to have to pay the 3 per cent per year. I think that's a suggested . . .

**Mr. Kloppenburg:** — Well as a practical matter, you're not going to . . . the reason equity markets are able to get away with a 3 per cent dividend rate is because there's capital appreciation. And it's a well-known fact that when the equity markets reach . . . when interest rates reach 10 per cent, that you're going to find people looking at fixed interest securities. Witness the run on mutual funds in the present environment. I mean, the whole thing is rather shaky from that point of view.

**Ms. Stanger:** — Thank you very much.

**Mr. Kloppenburg:** — Does that answer . . .

**Ms. Stanger:** — Yes.

**The Chairperson:** — I have two other people at this moment that have indicated that they want to ask questions.

**Mr. Knezacek:** — Thank you, Madam Chair. And thank you to the delegation for the presentation. I'll keep it short.

On page 1 you had made a comment in the second paragraph at the bottom:

We are opposed to the course of action it is pursuing now and we know there are other options available to meet future needs.

Do you have outlined somewhere what these options are in terms of ways of raising money or equity? And would you be able to outline those options, perhaps not necessarily right here at the hearing, but maybe via some paper to the committee in terms of these options that you suggest here?

**Mr. Burton:** — We have at various times made suggestions, given some of our thoughts as to the kinds of things that could be done or could be considered. Some of them in fact were mentioned earlier this morning.

I would suspect there's no one single item that would answer all of the needs of the

Saskatchewan Wheat Pool in the future; you're probably looking at a combination of things.

But I'll give just one example that applies to myself. I happen to be at the age, believe it or not, where I'm now beginning to draw out some of my equity. And if there were a plan where I could roll some of that equity back into Saskatchewan Wheat Pool in their subsidiaries as preferred shares or in some other instrument of that sort, I would be quite interested and happy to do so. But I still want to keep that basic cooperative structure.

And there are all sorts of things could be done by way of joint ventures. I know some places where there's a need for a new elevator and one of the new structures that are being built now and . . . okay, shortage of capital. That may be. Okay, why not then get together with the community. And if Sask Wheat Pool said, look, if you put up 50 per cent of the capital, we'll put up the other 50 per cent; we'll find some sort of a corporate holding for it and then make the necessary arrangements so that this would be used and available as a Saskatchewan Wheat Pool facility.

These are just a few things. And I think there's any number of things, but in fact we've never been given any access to the 38 different options which they have said from time to time that they've studied. And I think that members should have a chance to look at that as well — not just take their word it won't work. Won't work — that's some of the answers we've received from time to time.

And I in fact have asked for some of those studies, and they declined to give me access to that information.

**Mr. Knezacek:** — Okay, thank you. That's all, Madam Chair.

**Mr. Roy:** — Thank you very much, Madam Chairperson. And I want to welcome you gentlemen here this morning and thank you for your presentation.

I just want to ask a question on the issue of class B shareholders because basically what your concern . . . I think your main concern is that the ownership and direction of Saskatchewan Wheat Pool is going to move away from the members to these shareholders. I want to . . . and in particular in



Mr. Kloppenburg's comments that some class B shareholders may try to influence class A shareholders and the board of directors and the delegates as well.

But I want again to go to the Q & A that was sent out, and on page 9 at the back after question 28, it is written there that:

No individual or related group of individuals will be allowed to hold more than 10 per cent of outstanding class B shares.

As well, when you go to the Act on page 11, clause (c), and I quote:

... the shares cannot be issued, sold, transferred or assigned to a person if the transaction will result in the person beneficially holding, directly or indirectly and taking into account any Class "B" Non-Voting Shares held by an associate or an affiliate of the person, more than 10% of the issued and outstanding Class "B" Non-Voting Shares of the corporation.

Obviously, there will be some form of registry that will be established to monitor the sale and transaction of class B shares. My question is, how then will class B shareholders, which would be non-voting shareholders, influence, potentially influence the delegates and the class A shareholders? It's enacted and enshrined in the Act.

**Mr. Kloppenburg:** — Well, first of all, PCS (Potash Corporation of Saskatchewan) has a similar provision, if I may refer to history, and I'm not going to go into that.

Number two, the point that I attempted to make was that any single shareholder . . . you can have an individual — or corporation, more to the point — owning 10 per cent of the class B shares. You might have two persons owning 10 per cent of the class B shares — a second person. You might have collusion between two owners of class B shares.

And it's a well-known historical fact that shareholders' meetings, even of the Canadian Pacific Railway, consist of a handful of people.

And you might find a situation where 20 per cent of the shareholders bother to exercise

their corporate franchise, and they can, by having 20 per cent of the shares — if the power to elect directors is granted — they might well be able to elect to the board of directors, that 20 per cent.

Secondly, I attempted to make the point that any corporation which has an equity component in it where's there's 300 million people . . . \$300 million has to be sensitive to the opinions of the market. And one of the ways in which the opinion of the market would be placated and kept happy is by adding to the board of directors stalwart examples of sound judgement from the investment sector.

So it's a very short step to see a situation evolving where it would be perceived to be in the best interests of the Pool . . . or the best interests of the Pool keeping the class B investors happy . . . are those of the marketplace, that they would welcome into their midst outsider directors who would have a substantial input into the operation of the Pool. And they might have to do it to keep the investors happy.

Many corporations have outsider directors to keep the investors happy. And equally if the provision occurs or if it unfolds that the by-laws are amended to enable the election of directors by the class B group, it makes it that much more likely. Have I answered your question?

**Mr. Wells:** — Can I just comment to that too. I want to answer that question, I think, by throwing out another question. If the class B shareholders are forever to be the silent partners that are hinted at here, why are there changes in the Act that make it easier for class B shareholders to sit on the board of directors?

**The Chairperson:** — Well on that, that was the one question that I had. I've been looking through the Bill here trying to find that, and on section 5(f) it addresses the appointment, removal, and so forth of members of the board of directors by the delegates according to the by-laws. But then if you look at section 12(1), it says that the delegates have the exclusive right to amend, make or repeal by-laws.

I mean I can't find the opening that you're . . . I mean I've been looking for it . . .

**Mr. Wells:** — The opening that makes it easier

for class B shareholders to sit on the board, even though they're non-members?

**The Chairperson:** — No, I'm saying it's made more difficult, or it's made possible only by the class A shareholders exercising their authority as delegates to make, repeal, or amend by-laws pursuant to which directors are appointed.

So I'm saying that class B shareholders would have no route to gain a seat on the board of directors except by the direct exercise of the exclusive rights of the class A shareholders. That's the way I understand it. You know, you seem to be saying something different. And so what section of the Act . . .

**Mr. Wells:** — No. That's my understanding as well, that under the Act as proposed, delegates will still have to, by a two-thirds majority, vote to allow class B shareholders onto the board. But the process has been made easier by making changes in this Act which takes some provisions out of the Act, the current Act, and placing them in the hands of the by-laws . . . or placing them in the by-laws of Saskatchewan Wheat Pool.

So instead of a two-step process for class B shareholders to get onto the board — if there were such a thing under the present system — it will now be reduced to a one-step process, and it can be done after a vote on a single resolution at any delegates' meeting. So it is substantially easier in the new Act.

**The Chairperson:** — You know we're running into a real time problem here, and it has real serious implications because we have House duties and so on that are there and that we just can't escape, so we can't use our discretion to say well we're just going to sit longer.

But this is one question. There is a matter of procedure here that time doesn't allow for right now. But in one of the other sessions, in the open period that we hope to have in our blocks of time, it is possible and part of the procedure of this committee that, for instance, members can ask witnesses who have already spoken, like for instance in this particular case. A member could ask Mr. Larsen or someone from the Wheat Pool. You're here; you've heard what's been said. What do you have to say to that?

And vice versa. You know, members of your delegation who stay to hear others, the members can ask previous witnesses to comment on something that's being said. And I think this is a very . . . it's a really critical issue, and we will have to make time when the appropriate people are present still, which I hope they will be. Some have given their intent to be here, to be present for other parts of the hearings. So with your permission, could we come back to that?

**Mr. Upshall:** — With leave of the members, Madam Chairperson, I'd like to make a short statement.

**The Chairperson:** — Does the member have leave? Agreed.

**Mr. Upshall:** — Thank you. Just for clarification purposes for the record, I was brought into this discussion earlier in the day, and it must be understood the context in which the statement was made. It was in relationship to the fact that if the class B shareholders successfully challenged the authority of class A, then that would mean or it could mean the privatization of the Pool.

And secondly, I regret that I have to say this simply because members here know meetings with the caucuses are in confidence and especially when they're taken out of context. I would just hope that it wasn't intended to miscolour anyone's character, and I would hope that it was not done deviously. Thank you.

**The Chairperson:** — Thank you. Mr. Murch . . . I think that we should probably, with the indulgence of the members, hear Mr. Murch because he is on the agenda. And we will, probably with apologies, have to shorten the time that would be available for questions.

And the other two people, Mr. Bray and Mr. Mr. Kirsch, we won't be able to hear you in this block of time, but I hope that you will be able to return for another sitting.

So if there are no further questions — no one has indicated — I'd like to thank you very much.

**Mr. Miller:** — Madam Chairperson, members of the committee, thank you for the hearing. We will be available should you so wish to call

on us.

**The Chairperson:** — Thank you very much for your presentation and the answers to the questions. Thank you.

**A Member:** — Madam Chair, since I cannot be here, would it be possible to submit a written submission?

**The Chairperson:** — Yes, that's part of the proceedings . . . is to the acceptance of written submissions and direct it to the Clerk. And the Clerk will make sure that all the members receive copies. I'd like to call now on Mr. Murch.

**Mr. Murch:** — Madam Chairperson, I left some copies . . . oh, they've been around.

**The Chairperson:** — Yes, thank you. Go ahead, Mr. Murch.

**Mr. Murch:** — Well, members of the committee, Madam Chairperson, I'm going to try to stick to those things which I think are involving this committee and not get into those things that can satisfactorily and adequately be dealt with within the Wheat Pool itself. Now while my name is attached to this, it's broadly representative of a number of people. My wife, who is with me, also assisted in preparation of this brief.

Madam Chairperson, and members of the commission, this submission is being made to encourage you to give favourable consideration to the Saskatchewan Wheat Pool's request to amend the Pool Act which will permit the organization to change the members' share capital class A voting and class B non-voting shares.

Some concern is being expressed that this conversion will result in loss of control by the members and that there should be a membership vote before implementation of these proposals. I would like to very briefly state why I do not share in these concerns.

We must first look to the history of farm organizations, beginning with the formation of the Territorial Grain Growers' Association in 1901. This was followed by the formation of numerous farm organizations over almost three decades, in which our forefathers gained a great deal of knowledge and experience in

the structure of a farm organization. This knowledge and experience was utilized in forming the Saskatchewan Cooperative Wheat Producers Ltd. to provide for the pooling of grain.

On June 24, 1924, the target was reached when 45,725 producers with 6.5 thousand acres were committed to the pooling concept. In the meantime, a provisional board of five members had laid out the groundwork for the new structure by dividing the province into 16 districts, each with 10 sub-districts. In July 1924, the 160 delegates elected by members to be their representatives met in Regina to elect the first board of directors, consisting of one director from each district. Representative democracy for the new organization was thus firmly established and remained so to this day in what is now Saskatchewan Wheat Pool.

I have had the opportunity to assess the democratic structure of the Wheat Pool from many aspects: first, by becoming a member when I started farming in 1948; followed by serving on a local committee; a delegate for 16 years, and 10 of these as a member of the board of directors.

I am firmly committed to the form of representative democracy in Saskatchewan Wheat Pool. It has served us well and is the envy of many organizations throughout the world. Membership in Saskatchewan Wheat Pool in 1994 totalled 83,993. Each member has charged his or her delegate to make decisions on their behalf, and each has the opportunity to advise their delegate and has the opportunity to get reports back from the delegates.

If each of us was required to devote the necessary time to fully study the various aspects in Pool operations and farm policy to the same extent as we request of our delegates and directors, we would have little time to devote to our farming operations. Delegates have an ongoing responsibility to the sub-district which they represent during their term of office. And if members disapprove of their delegate's decision and action, they have the opportunity every two years to elect another delegate.

We cannot show respect for representative democracy if we were to charge our delegates with making decisions on what we may choose

to class as a minor decision and at the same time demand a direct vote on what we may class as a major decision. The same criteria would apply to our elected members to the Legislative Assembly.

The amendments requested will not change our system of representative democracy. That structure will remain the same by members retaining their class A shares which cannot be sold but redeemed only by returning them to the Pool.

When I received my equity pay-out from the Pool upon reaching the age of 70, I reflected back on what the Pool has meant to me and to my family. Through the Pool, we were well served in the matter of grain handling and other facilities in the full knowledge that any charges in excess of what is required will be returned to us as dividend payment and equity. Through the democratic structure, I have equal access with the large-, medium-, or small-sized producers to help, through my delegate, to guide the destiny of the Pool.

Aside from monetary returns . . . and perhaps more importantly, representation by the Pool in agricultural policy is vital. And all of this for a one-time membership fee of \$25 in shares. I want this to be retained for myself and my family and for all farm families. The Pool has also become a very integral structure in the life of Saskatchewan. I want this to remain also.

While serving on the board of directors, I was well aware of growing concern over the Pool's ability to preserve the status of member equity, with the equity payments growing each year as the age of our membership increase. With equity repayment obligations now requiring a cash outflow of 20 to \$30 million every year, I can well appreciate the present delegates' and directors' concern for the ability of the organization to continue under the present structure and still meet these obligations as well as provide capital for facilities to meet members' current needs.

From my experience with the Pool I have learned that decisions made by the delegates, directors, and senior management have always had as a first criteria, will it be in the best interests and welfare of the members? I have faith that the decision made by 80 per cent of the delegates to change the equity position of the Pool had this same criteria in

mind.

Changes of this sort are naturally difficult to accept, but I do sense a growing awareness by members that equity conversion proposals are necessary if the organization is to continue and to provide the services required by members. Respectfully submitted, Cliff Murch.

I have kept this deliberately brief, Madam Chairperson, to allow you some time, if you wish to . . . questions, and I'd be pleased to respond.

**The Chairperson:** — Thank you, Mr. Murch. Are there any questions or comments for Mr. Murch?

**Mr. D'Autremont:** — Thank you for coming forward, Mr. Murch. I have one question for you. Did you as a local Pool member, receive any representations, from the delegates prior to their vote, of what this issue was about?

**Mr. Murch:** — Well all delegates have been carrying on a very wide-spread contact with their members. This is an obligation of the delegates.

Now we have . . . and the board has no jurisdiction over delegates. If they choose to not do this, it's up to the members to see that they do it, if they do it. And as far as I know, every delegate was charged with that responsibility. And in my experience as a delegate and as a member of the board, I can say I would anticipate it was done all over the province. It's the member that must question their delegate as to why it was not done.

**Mr. D'Autremont:** — Did you receive one personally though from your delegate?

**Mr. Murch:** — Yes. I would say that I received it from many quarters, yes. The Pool itself sent out a variety of information, but as I mentioned here, we do rely on our delegate structure. I'm not saying that each one of us could respond the same way as to how well their delegate performed, but it is their obligation and one that we must expect them to do. If not, we change them.

**Mr. D'Autremont:** — As a Pool member, I was wondering though if you personally had received one, or if your local committee had received a representation from the delegate.

**Mr. Murch:** — Oh yes, yes.

**Mr. D'Autremont:** — Okay. Thank you.

**Mr. Roy:** — Thank you very much, Madam Chairperson. I want to welcome you, Mr. Murch, this morning and thank you for the presentation.

Again on the process, and basically that's where a lot of the concerns have arisen and come to my attention ... is that some members feel that there wasn't adequate consultation, in particular on this, a fundamental — they believe a fundamental — restructuring of this cooperative. It's not a small decision here.

And I don't think anyone questions the integrity or the dedication of the delegates. In fact my delegate is a very professional individual who went to great lengths to try to inform the membership of the details of this particular proposal.

However I think there is members who feel that the meetings that were held were not well represented, that membership didn't come out in large out numbers at some of these meetings and that they were not adequately informed of the details of this. Now I guess that's where they of course raised the issue on such a major issue to the cooperative that the most democratic and most representative way of getting an adequate reading of the memberships' feelings on this would have been a membership vote.

**Mr. Murch:** — Well I guess in response I must say that in an organization like this, members themselves also have a responsibility to the organization. The best the organization can do is to make it possible for them attend. We can't go to every individual member and discuss for two or three hours with him the merits of it. The member must exercise his responsibility, not only to elect a delegate but to come to those meetings and get the information.

It's fine for us to say that members have been fully informed to the extent elected people could do it; they have been. But if they have not absorbed it and haven't come to the meetings to find out, whose fault is it? It's the members', and I would suggest that some of the concerns that are existing today are due to that: due to the members not coming forward

and assessing the problem.

And as I mentioned earlier in my submission, it would be virtually impossible for all the members to fully assess that, not because of the intelligence but because of the time. And I found out since I got off the board, retired from the board and the delegate body, I am much more away from what's going on because our delegates and directors that closer to the scene can devote more time to assessing either end.

But if you're there with a meeting in your local community and six people attend and maybe the rest of them say, I didn't have any information, it then becomes their fault. There's been much printed literature out too, to all members.

**The Chairperson:** — Any other questions for Mr. Murch? Thank you very much.

**Mr. Murch:** — Thank you very much, members of the committee.

**The Chairperson:** — My apologies to the people who indicated that they would have liked to speak to the session that there isn't time, and I hope that either a written submission or at another session, we'll be able to accommodate you.

We need to have a short, very short in camera meeting for just a few minutes. So if I could ask for your indulgence in clearing the room as quickly as possible. Thank you.

**The committee continued in camera.**

The committee adjourned at 12:50 p.m.

