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SPECIAL COMMITTEE ON FOOD PRICES **HEARINGS**

Thursday, October 15, 1981

Chairman: Doug Graham, M.L.A.

SPECIAL COMMITTEE ON FOOD PRICES

CHAIRMAN: Doug Graham, M.L.A.

MEMBERS: Peter Hanson, M.L.A.

Tony Penikett, M.L.A.

Missy Follwell
Clerk to Committee

Wynne Krangle
Committee Researcher

Expert Advisor: Dr. Peter Dooley, Department of Economics and Political Science,
University of Saskatchewan, Saskatoon.

WITNESSES: (Not transcribed)

Al Heiland, Whitehorse

Rick Mombourquette, Whitehorse

Cyril Aucoin, Whitehorse

Oliver Nelson, Whitehorse

WITNESSES: (Transcribed)

Don Palamar, Food Fair, Whitehorse

Jens Jorgenson, Riverdale Market, Whitehorse

Tim Dixon, Riverdale Market, Whitehorse

Doug McLellan, President, B.C. & Yukon Division, Kelly Douglas & Company Limited

Shirley Anne Brown, Director of Communications, Kelly Douglas & Company Limited

James Eby, Warehouse Manager, Kelly Douglas & Company Limited, Whitehorse

D. Kobayashi, Acting Manager, Super Valu, Whitehorse

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Mr. Chairman: I will call this session of the Special Committee on Food Prices to order.

It is my pleasure to welcome Don Palamar from Food Fair in Whitehorse to be our guest tonight.

Mr. Palamar I will start off by introducing Mr. Swede Hanson on my far right, who is the MLA from Mayo, and a member of the committee. My name is Doug Graham, MLA for Porter Creek West, and I am chairman of the committee. Unfortunately, Tony Penikett cannot be with us for a little while. He is the MLA for Whitehorse West, and the third member of the committee. Missy Follwell is our clerk and Dr. Peter Dooley is our expert adviser, with us from the University of Saskatchewan and Wynne Krangle is our researcher.

It is nice to have you here tonight. We realize you have a very busy schedule and we appreciate you taking the time to come and meet with us.

What we have done, Mr. Palamar, with witnesses in the past, is allow them to give a presentation to us, if they so desire, and then we will ask questions based on some set questions that we would like to ask and then other questions as a result of answers that we hear. However, since we have requested that you appear, I understand you probably don't have a set statement you want to give us before we start.

Mr. Palamar: That is correct.

Mr. Chairman: Okay. Perhaps I will start the questions, if it's alright with you, Mr. Hanson.

Perhaps, Mr. Palamar, you can give us a brief history of your store and your involvement with it over the past few years.

Mr. Palamar: Food Fair is a company that was owned by Taylor and Drury prior to the ownership of Palamar and Evans, which was on December 3, 1973. Food Fair is totally owned by myself and Robert Evans.

Mr. Chairman: There are no other interests in your store.

Mr. Palamar: Absolutely not.

Mr. Chairman: Because you often hear the comments that Kelly Douglas has some involvement...

Mr. Palamar: When I say absolutely not, I mean absolutely not.

Mr. Chairman: Excellent. Thank you.

Do you have any plans in the near future for expanding your store at all.

Mr. Palamar: Yes.

Mr. Chairman: Are they confidential at this time?

Mr. Palamar: They are very confidential. That's correct.

Mr. Chairman: I understand that Kelly Douglas is your major supplier for dry groceries and produce. Is that correct?

Mr. Palamar: Absolutely.

Mr. Chairman: What percentage of that type of material do you buy from Kelly Douglas?

Mr. Palamar: About 45 percent.

Mr. Chairman: 45 percent. Do you buy meat and dairy products from Burns as well?

Mr. Palamar: I buy from all packers. A very small portion from Burns.

Mr. Chairman: We have often heard, from a great number of people in fact, especially from the outlying areas, that even though Burns was a major wholesaler of meat in the territory, they find that they can buy cut meat and ready-for-sale meat cheaper from Food Fair, and, in some cases, I think we heard, even better quality from Food Fair than from Burns. Why is that?

Mr. Palamar: Well that must mean that meat prices are pretty competitive, pretty low, maybe they're too low.

Burns Whitehorse is a depot. We buy from Burns Calgary and bypass Burns Whitehorse, for example. We buy from Swift's, Gainer's and so forth. Burns Whitehorse is a depot and

they buy from Burns Calgary, so it only makes sense that the price of their meat is going to be higher in Burns Whitehorse than it would be from Burns Calgary.

Mr. Chairman: So, in essence, what you are saying is that you can buy meat at the same price that Burns in Whitehorse, a wholesaler, can buy meat.

Mr. Palamar: I would say fairly close. This is a depot here. They have to make money in this operation here so, of course, the prices are higher.

Mr. Chairman: You say that Kelly Douglas supplies 45 percent of your product. As I understand it, you buy meat then from all of the various other suppliers, but who else supplies you in a major way.

Mr. Palamar: Oh a great many companies.

Mr. Chairman: Can you give us a few examples?

Mr. Palamar: Silverwood Dairies, Canada Packers - a lot of groceries from Canada Packers, Scott Bathgate, a great many companies.

Mr. Chairman: With these companies, when you purchase from them, do you purchase direct from their warehouse outside?

Mr. Palamar: Yes.

Mr. Chairman: How do you ship those items into the territory?

Mr. Palamar: Through White Pass, through Zenith Trucking, through Kelly Douglas - Kelly Douglas acts as a distributor for some of these food companies — Yukon Freight Lines.

Mr. Chairman: So you make use of everybody.

Mr. Palamar: Everybody.

Mr. Chairman: We have talked to several of the other retailers in the city of Whitehorse and what we have tried to do is get an estimate of the size of the Whitehorse retail grocery market and, without getting into specifics, we have tried to break them down into what companies are doing what percentage of the market. Could you give us your estimates?

Mr. Palamar: No, I watched on video tape and I am not prepared to share my information with you on what I do in volume.

Mr. Chairman: Do you have any idea what you think the Whitehorse retail grocery market is?

Mr. Palamar: I have a fair idea.

Mr. Chairman: What's your estimated guess.

Mr. Palamar: But again, I won't tell you that information either because that would help give you an idea of the volume that I perhaps do, because some of these other guys have given you their information. My volume is strictly confidential.

Mr. Chairman: We are asking you about the total Whitehorse retail market.

Mr. Palamar: Yes, that's right.

Mr. Chairman: I cannot see how that can have any effect.

Mr. Palamar: Well if I knew a few other peoples' percentages and I was the fourth one, it wouldn't be very hard for you to figure out my volume, would it?

Mr. Chairman: Do you have any kind of system or any set of rules you use to set prices in your store?

Mr. Palamar: Yes, I do.

Mr. Chairman: Can you give us an idea of it.

Mr. Palamar: Well I use pretty well the same system that most stores outside use. Same average mark-up, low mark-up on staples, higher mark-up with slower moving items, and so forth.

Mr. Chairman: What kind of a percentage are you looking at on staple items. You know, I'm not saying your store - we will keep away from your store specifically. But you have been in the grocery business a long time in Whitehorse. As I understand you formerly were a manager for Super Valu.

Mr. Palamar: That's correct.

Mr. Chairman: What kind of a mark-up are you looking at, say on milk and eggs, cheese products and that kind of product.

Mr. Palamar: On eggs, I make seven cents a dozen. They cost \$1.42 and I sell them for a \$1.49. What percent would that

be, five percent?

Mr. Chairman: Five percent, which is extremely low.

Mr. Palamar: That's about the lowest. Flour, eight percent, nine percent. Coffee, 10 percent to 12 percent. Some as high as 15 percent, depending on the item. Sugar, about 10 to 12 percent.

Mr. Chairman: Some of the questions may seem like they are very simple questions, but it gives us a better feel for what we looked at when we see price comparisons between Whitehorse and Vancouver, Whitehorse and Edmonton and other areas.

Mr. Palamar: Well, I'll be very happy to tell you anything I possibly can but I won't tell you my business, okay?

Mr. Chairman: Yes, we don't have any problem with that.

Mr. Palamar: And now that you have mentioned price comparisons between Whitehorse and Vancouver, I disagree with that. I think that it is absolutely ridiculous that you would ever want to compare Whitehorse to Vancouver. We have a zero population compared to Vancouver, right? There is nobody here compared to the population in Vancouver. If you took a centre like Penticton or a similar sized town you would certainly have a better comparison than a centre that would certainly be as far away from Vancouver as we are from Vancouver. Then we would have some guidelines. I can tell you that if you lived in Penticton and you went to, say, Keremeos or Oliver, which are what, fifty miles or something like that apart - I do not know, I used to live down there, but I do not know. But if you use those two centres you would find different prices in both centres.

There are different prices in every single centre but I am saying here, a few places 50 miles apart, you would find different prices in both places. And probably you would find places like Oliver higher than Penticton, and Penticton higher than Vancouver. So I maintain that it is very, very unfair to use Vancouver because, I guess, Whitehorse is the capital of the Yukon, or the only major city, and they lump it in there, but that's a bunch of B.S.

Mr. Chairman: One of the things that we did try at one time was to compare Whitehorse to Revelstoke, which was quite a distance from Vancouver and was comparable in size. Do you think that is more relevant than Vancouver or Edmonton?

Mr. Palamar: I think a lot of other places are. Vancouver is a highly competitive area. We will never be that competitive. Even if Safeway came here tomorrow, we would never be that competitive.

I can tell you that Safeway certainly does not have the same prices in Penticton as they have in Vancouver, or in Kamloops, as they have in Vancouver. I was in those areas. I certainly know that.

Mr. Chairman: What you are saying is that prices in Whitehorse are going to be higher than Vancouver and Edmonton, not only because of the freight costs, but because of the large population and the competitiveness, and the market.

Mr. Palamar: Population makes all the difference in the world.

Mr. Chairman: We have come up with this rough number of 11 percent for freight and if, in fact, the difference is 18 percent between Whitehorse and Edmonton, you are saying the seven percent could be due to the larger population and the competition and that kind of stuff.

Mr. Palamar: A good portion of it certainly, yes.

Mr. Chairman: How much of it do you think is due to larger profits made in Yukon, or do you think that profits in the Yukon are larger.

Mr. Palamar: No I don't.

Mr. Chairman: You think that profits in the territory generally are of the acceptable standard across Canada, which is one to two percent.

Mr. Palamar: I would think so. Yes.

Mr. Chairman: O.K. I am curious about price checks. We hear about price checks, especially in larger centres, where

owners of stores go to their competitors and do price checks. Do you do that in Whitehorse?

Mr. Palamar: Yes.

Mr. Chairman: In your opinion, the surveys that have been done showing that, generally speaking, Super A has been lower in price than Super Valu, and Food Fair is somewhere in between, lower in some areas, higher in others. Is that generally accurate.

Mr. Palamar: No, I am the lowest priced store in town. That is accurate.

Mr. Chairman: What do you base that on?

Mr. Palamar: On my price checks, and on a good velocity, not on just a few items.

Mr. Chairman: How many items did you check?

Mr. Palamar: A couple of hundred.

Mr. Chairman: In each store?

Mr. Palamar: Yes.

Mr. Chairman: And based on that you feel you are lower than anybody else.

Mr. Palamar: Yes. I am also lower than Teslin. I had somebody go down last week, all that way and back, to price check them.

Mr. Chairman: How many items did you check?

Mr. Palamar: About 15 or 20 items. We checked more items but we only got a handle on 15 or 20 so that we could compare them.

Mr. Chairman: Comparable brands?

Mr. Palamar: Yes.

Mr. Hanson: What is the size of the floor space of your store?

Mr. Palamar: 12,000 square feet.

Mr. Hanson: What is the selling space in your store?

Mr. Palamar: About 8,000 square feet.

Mr. Hanson: How many employees do you have there?

Mr. Palamar: Thirty.

Mr. Chairman: Full time, or does that include part time?

Mr. Palamar: I have about 23 full time.

Mr. Hanson: Do you ever have any problem getting fresh dairy products?

Mr. Palamar: No.

Mr. Chairman: You deal with Palm Dairies to a certain extent, do you not?

Mr. Palamar: Yes.

Mr. Chairman: They recently came across with freight rebates. I understand that is going to be eliminated now.

Mr. Palamar: I understand that.

Mr. Chairman: That will be on November 1st.

We have a letter here from Palm Dairies informing us, as a committee, that the rebate was going to be eliminated. Did they ever give you any specific reason why they tried it out in the first place?

Mr. Palamar: It was competition.

Mr. Chairman: They were just trying to get a competitive edge?

Mr. Palamar: No, their market was being threatened by Northern Alberta Dairy Pool.

Mr. Chairman: Do you deal with NADP at all?

Mr. Palamar: Only from time to time, but Palm Dairies, basically.

Mr. Hanson: One of the complaints we run into in the outside communities about the suppliers is that they can only phone in one day a week to get supplies.

Mr. Palamar: Where to, sir?

Mr. Hanson: Into Whitehorse, to suppliers. I think this one, in particular, is in Beaver Creek.

Mr. Palamar: And who would they phone, the store you mean?

Mr. Hanson: I am talking about phoning Kelly Douglas. Are you limited to one day a week?

Mr. Palamar: No. I can order every day of the week, but I have to conform. I have to give them lead time.

Mr. Chairman: How about shorts. Do you have any trouble

with short orders from your major suppliers?

Mr. Palamar: We have had.

Mr. Chairman: Is it a consistent problem?

Mr. Palamar: It is a national problem right now.

Mr. Chairman: That's what we understood, because of strikes.

Mr. Palamar: Yes, it's a national problem for a lot of reasons. I guess money, repacks, transportation, you name it. There are a lot of reasons for shorts.

Mr. Chairman: What kind of an inventory are you forced to carry in order to maintain your stock, the mix, that you have?

Mr. Palamar: I am not going to tell you.

I do not have to maintain a very high inventory because I buy from Kelly Douglas here, locally. And if they do not have the product then I go elsewhere to get it. I keep my shelves fairly well stocked, compared to some other stores, because I go after the product.

Mr. Chairman: We have had some comments from consumers about sale items which are sometimes limited in quantity. In other words, when you have a sale on a specific item, do you limit quantities?

Mr. Palamar: We do at times, yes. Limit the quantities you can purchase?

Mr. Chairman: Yes.

Mr. Palamar: If the price is that hot, we do. If we are below cost, which we often are, on items, we do, yes.

Mr. Chairman: If I come in and you had an item advertised on sale and you are out of that specific item, would you give rainchecks?

Mr. Palamar: If we can replace the product yes, we will. Or we will bring it on sale again. We will tell the people we will either take your name and look after you or we will have it on say, next Tuesday if it was a Tuesday special, and we bring in something and it really motors out, then we will do it over again the following Tuesday, and give them the same opportunity at the same price. Some items you cannot buy again.

Mr. Chairman: I understand. When you talk about sales on loss leaders to bring people in, how much of that do you do?

Mr. Palamar: A lot.

Mr. Chairman: Do you consider it a necessity on the Whitehorse market to attract customers.

Mr. Palamar: Yes, we are very competitive. We feel we are. I say in all sincerity that I feel we are probably the leaders in Whitehorse. I like to blow my own whistle, but that is the truth. I really feel that, and if you check our ads and check our specials, you will see that we do a real good job, a real good job. I heard Mr. Mitchell say that but I think I am better. We do a really, really good job of trying to give people items at right prices. We really push hard.

I might tell you that we sell over 50 percent of our grocery items on sale, over 50 percent. We sell 70 percent of our meat on sale, 70 percent. We sell about 45 to 50 percent of our produce on sale. So that gives you some idea.

We don't sell it all as loss leaders. We make money on a lot of our specials. There is no doubt about that. We sell below cost, too.

Mr. Chairman: That leads me into another question. One of the other problems that some consumers have complained about, is that when a certain bit of produce, or something, went off colour, or was not right up to par, rather than putting it on sale and selling it at a very low price, it would be thrown out. Now is that a common thing happening?

Mr. Palamar: If it is edible and if it comes in in poor quality and it is edible, and we can't buy anything else, we special it, and put up a sign, right on the product, "poor quality cum-quats." If it is produce that is tired and sick and day old, we do not sell it, we give it to certain people in town.

Mr. Chairman: You try to avoid throwing it out if at all possible?

Mr. Palamar: That is right.

Mr. Chairman: Recently, this summer, we had some truck-load specials advertised in local papers, Kelly Douglas, Zenith

Transport. Were you involved in those?

Mr. Palamar: Yes.

Mr. Chairman: How was that arrangement done? Did you just contract for a certain portion of that load?

Mr. Palamar: I had to prebook it, yes, prebuy the merchandise.

Mr. Chairman: Prebuy it?

Mr. Palamar: Yes.

Mr. Chairman: And then it was delivered here to Whitehorse and sold here.

Mr. Palamar: That's right.

Mr. Hanson: We ask four standard questions, as a rule, and try and get you to supply what you think is the first big item that you have that raises the price of food so much in the Yukon. Is it freight, wages, energy? Which would be the biggest single item?

Mr. Palamar: The biggest single item would be freight, the second would be energy.

Mr. Chairman: Wages would be third?

Mr. Palamar: Yes. Energy is very high, very high.

Mr. Chairman: Is electricity the major cost or is it heating, in your store?

Mr. Palamar: I pay over \$33,000 a year for electricity. I have to sell a lot of beans to make \$33,000, or \$25,000 a year for fuel.

Mr. Chairman: Have you talked to the territorial government energy conservation program people?

Mr. Palamar: In the building we have, it would cost us a million dollars to improve it.

Mr. Chairman: So you have talked.

Mr. Palamar: Yes.

Mr. Chairman: One of the questions that springs to mind after speaking with you for a little while, Mr. Palamar, is that it seems to me that you question the validity of this statement that the Economic Research and Planning Unit has done in the territorial government which says we are 20 to 25 percent higher in grocery prices above that of Vancouver or Edmonton. Do you question that?

Mr. Palamar: I question it in relationship to how, and I am not questioning the ladies who did the survey, but perhaps the "specials" activity that goes on here, such as what I described in the figures I gave you, in relationship to perhaps another store. Our percentage of specials is very, very high, and if that is not taken into consideration in a price check, then it is not a fair price check, as far as I am concerned.

Mr. Chairman: Especially when you are selling volume under specials that you are.

Mr. Palamar: That is not even counting the sales tax, which is never included. What is it, six percent? The box of soap at nine dollars, that would be 54 cents, would it not?

Mr. Chairman: Do you pay sales tax for foodstuffs?

Mr. Palamar: Yes, you sure do, in British Columbia?

Mr. Hanson: Yes, the only one where you do not is Alberta.

Mr. Palamar: Toilet paper is a luxury, but I think you pay sales tax on it, do you not, in British Columbia?

Mr. Chairman: That is an interesting point, because I don't know if we have ever considered sales tax as a portion of food prices.

Mr. Palamar: I wish I made \$3.20 a carton on a carton of cigarettes like the territorial government does. And they raised it two dollars this year. I do not even make a dollar, if I make that.

Mr. Chairman: What do you think the differential is then, between say, Vancouver or Edmonton and Whitehorse?

Mr. Palamar: I do not know. I have no idea. But sometimes it gets as high as 30 or 35 percent, and you were speaking about 18 percent a while ago, and then 20 and 25 percent. I would like to know a fair figure myself, and I have no idea. I would not even want to guess.

Mr. Chairman: The latest figures that we have are 18 percent difference between Edmonton and Whitehorse and 29 percent, I believe, between Vancouver and Whitehorse, or is it the

other way around?

Mr. Palamar: Vancouver is certainly a higher market than Edmonton.

Mr. Chairman: Yes, it probably was the other way around. You do not think those are entirely accurate?

Mr. Palamar: When was that done?

Mr. Chairman: That was June of 1981.

Mr. Palamar: I would say that those were realistic figures, but I would like to know more about the activity that is included in the figures, such as the specials activity. Are they including specials outside and here? The sales tax would be another area to consider. Those things would be important.

Mr. Chairman: One of the problems that we have always had, and I do not know if we have had it answered to our own satisfaction, is that there seems to be a gap somewhere. If we consider the 18 percent difference, 11 percent is due to freight, as you know. I do not know what percentage we can attribute to higher operating expenses in Yukon because, like you said, diesel fuel is definitely higher here and you use more of it, electricity is higher here and you probably use more of it. So, what kind of a percentage are we looking at for increased operating expenses, because we always seem to have a gap between what the percentage difference is and what the reasons for that percentage difference are. There is no doubt that freight is a contributing factor, there is no doubt higher operating costs are a contributing factor, but what causes the rest?

Mr. Palamar: I have no idea.

Mr. Chairman: You can understand our dilemma. One of the obvious things, and I think this was pointed out to us by Mr. McLellan from Kelly Douglas, is that our figure, 18 percent, was not accurate, and possibly we will have to check that one out again. But there is still a question in our minds. There seems to be a gap somewhere. We just do not know.

Mr. Palamar: Well, why don't you take a price check in other areas and do the same thing. Do your homework the same way and find out if there is a gap there, too.

Mr. Chairman: Give me an example.

Mr. Palamar: Like the examples I used, some other towns.

Mr. Chairman: You mean in B.C. and Alberta, small towns outside the major centres?

Mr. Palamar: Yes. You people do that survey. Is there specials activity involved in that survey, do you know?

Mr. Chairman: Yes. It is done on a specific day at a specific time and it is done at exactly the same time in all areas.

Mr. Palamar: And are specials included in it?

Mr. Chairman: Yes. Any items that are on the list, if they are on special, are included.

Mr. Palamar: It is indicated, but is it actually included if the specials are available in one centre and not in another?

Mr. Chairman: Again, it depends a lot on the day and what may be on special.

Mr. Palamar: So that could be good and bad.

Mr. Chairman: Definitely. That is why I suppose the percentage, the 18 to 22 percent we were talking about, changes from month to month, too.

Mr. Palamar: Well, I am certain that you gentlemen know, through all the meetings that you have had, what are the higher areas. I am certain that you must know by now the areas that are very, very high. You know that produce is very, very high. You know that meat is very competitive. You know that dairy is very, very high. The other groceries, the staple groceries that have no real support, like flour, which has no real support, those are high. Those are heavy items. I do not know for sure, but flour companies maybe give two dollars a hundred allowance for freight, or something. It is not enough, you see. Those items are very high, very heavy, they attribute very much to the food bill.

Mr. Chairman: Yes, that is what we have found, very early on.

Mr. Palamar: You know all that. You know all those major food areas. A bag of potatoes cost \$10 in Vancouver for 100

pounds, but \$20 here. Those are the things that are very high.

Mr. Chairman: Yes, ten cents a pound to a steak does not mean a thing.

What is your upcharge from Kelly Douglas?

Mr. Palamar: Why, I have no idea. I buy everything all costed out. I do not know what my upcharge would be. I do not pay an upcharge. I pay one price. Pardon me, if a case of pork and beans is ten dollars I pay ten dollars. There is no upcharge.

Mr. Chairman: The next part I am getting to is, we have heard during our travels throughout the territory about how much business Super A and Horne & Pitfield and Macdonald Consolidated, and others, have taken away from Kelly Douglas in Whitehorse. We do not know how accurate it is. One of the things we were interested in is that the big purchases from Kelly Douglas would seem to have more of a competitive edge with Kelly Douglas because of the fact that, if what we hear is true, the volume has either stabilized or dropped off. We are interested in knowing if the competitive edge, or the competition is being felt and in such a manner that your prices are actually coming down. Or have you noticed any difference?

Mr. Palamar: I am just going to refer to a media statement that was heard, that you people reported some person complained about being able to buy apple juice cheaper at Super Valu than at Kelly Douglas. I wish they had bought it from my store, because it would have been cheaper again. Well, that is terrific, is it not? That means that the store must be competitive and that means that I must be more competitive, if I can sell it cheaper than he can buy it from Kelly Douglas.

I have bought from Horne and Pitfield. And their prices were not that good. I tried to buy from Alberta Groceries but I had to join the family when Super Valu went on strike. That is the only way they would sell to me, if I joined the family. So I had to buy from Western Grocers. I have bought from other supply houses outside.

Mr. Chairman: Once you have paid freight you have not really noticed that much of a difference?

Mr. Palamar: No, not that much difference, if any. I think it is a matter of choice. If the store down the road wants to buy from Horne and Pitfield, Dominion Food, Super A Foods, that is their business. I have a good relationship with Kelly Douglas, a very good relationship with Kelly Douglas. They treat me well. If they did not treat me well, I would not buy from them.

If I had to go outside and buy from somebody else, it would cost me more money to operate and I would have to have a very good reason for doing it, because I get merchandise at my door every day. It comes off a truck with a hydraulic lift. I put a forklift under it and bring the pallet out into the back room and it is in. If I went the other way, which I do when I get merchandise from White Pass, and I get a container load of product that has to be unloaded by hand, you can see the time involved in that.

I am quite satisfied with Kelly Douglas. I have no beef with them. I am not in love with Super Valu, I can tell you that. And I can tell you that at one time, they were two distinctly different divisions and Mr. McLellan was the wholesale division manager of the company, and not the president. I used to work for Mr. McLellan, and Mr. McLellan and I have been very good friends for over twenty-seven years now and it is through Mr. McLellan that I support Kelly Douglas. I am being very honest in telling you this.

The other division manager was a retail division manager of Super Valu and I never worked for that man until we opened a new Super Valu here, then I worked for him. But he did not like me, and I did not like him, and we did not get along at all. When I had a chance to buy Taylor & Drury and get out, I got out. So I have no love for Super Valu, I can tell you, but I certainly have a lot of respect for Mr. McLellan, and I have a lot of respect for the people here at Kelly Douglas. They do a fine job.

If I didn't buy from Kelly Douglas, and I went outside and bought groceries supporting someone else, would you people think that was a good thing? Would you think it would be a good thing for me to go outside and start buying groceries from

somebody else and hauling them in? If there was no advantage, would you think that would be a good thing? Just to reduce the thing down to basics, would you think that would be a good thing?

Mr. Chairman: We are not here to say whether that would be a good thing. What we are here to do is to try and find out if there would be an advantage to you to do that.

Mr. Palamar: I am here to tell you that it would not be, and I am here to help pay people at Kelly Douglas. I am supporting a payroll in the Yukon by buying from Kelly Douglas. If I did not, I would not be supporting a payroll in the Yukon. It is that simple. And, if Kelly Douglas next week, or next month, does me dirty, and regardless of my friendship with Mr. McLellan, I can certainly tell you that they would lose me as a customer.

Mr. Chairman: That is what we wanted to know. You are not in business to be a philanthropist, is that what you are telling us?

Mr. Palamar: In short order, that is absolutely correct, and Mr. McLellan knows it. We have knocked heads before, since our little excursion into Food Fair. We expect to be treated just the same as anybody else, but we expect to be treated good. That is all we ask for, fair prices, fair treatment, and when we ask for our merchandise we expect to get it. If they can not supply us, we can go to somebody else, and they know it.

Mr. Chairman: When you are shipping your goods in from other wholesalers and other suppliers, from Edmonton or Vancouver, what kind of a freight price do you get?

Mr. Palamar: When Yukon Freight Lines was here, you were told \$9.30 plus surcharge. And it is through a team effort that we get that. We pool with Super Valu and others, and we make this rate work. I set that up with Yukon Freight Lines. Don Palamar was all alone with Yukon Freight Lines at one time. O.K.

Mr. Chairman: I notice now that when you are shipping in milk from Palm Dairies, you ship in both to Super Valu and your store at the same time. That is the arrangement you are talking about?

Mr. Palamar: Yes. We were shipping via White Pass, and with White Pass we never made weight. I think the lowest rate I have had is around nine dollars, or something like that, nine dollars to twenty-eight dollars.

Mr. Chairman: On the ship, or by truck?

Mr. Palamar: On the ship.

Mr. Chairman: I do not have any other questions, Mr. Palamar. I appreciate having you here. If we have any other questions that we would like to ask you, I will send you a letter. I appreciate your frank comments.

Mr. Palamar: You are welcome to come down to the store and visit. I might show you a few things.

Mr. Chairman: If you have any comments you would like to make in leaving, I would be happy to hear them.

Mr. Palamar: No, I thank you very much for allowing me to say hello, and all that.

Mr. Chairman: Thank you.

It is now my pleasure to welcome Jens Jorgenson and Tim Dixon from Riverdale Market. Thank you very much for coming. As you have probably heard, a number of the questions that we are going to ask you, we asked of Mr. Palamar, and we have a set group of questions we try and ask all of the retailers as often as possible. Perhaps I will start out, if that is satisfactory to you, with a few of the same questions that I asked Mr. Palamar.

Can you give us a brief history of your store and your involvement with it? If you have any future plans that you would like to share with us, we would be glad to hear them too.

Mr. Dixon: We have been in there approximately a year now.

Mr. Chairman: You have been there a year. Are you two the sole owners of Riverdale Market?

Mr. Jorgenson: Yes we are.

Mr. Chairman: And you lease the store itself from Tchir

Investments?

Mr. Dixon: Yes, Tchir Investments.

Mr. Chairman: There was some comment when you people moved in to Riverdale Market, about the fact that Kelly Douglas has set you up and they were the reason ... Again, these questions we have to ask because they have come to our , in the form of a letter from someone who wanted to know. One of the interesting things that we even asked Kelly Douglas and have done some checking on ourselves, was about the Zenith Transport link with Kelly Douglas and we have found out that the information that we had was entirely false and that there was no link. So please do not take exception to any of the questions that we ask, as we felt we must.

What we heard was that Kelly Douglas had bought out Riverdale Market when it went into receivership, and set you two gentlemen up simply to protect their own position in the Whitehorse market, and they in turn financed the operation of Riverdale Market. Now, is that true or is it not?

Mr. Jorgenson: No, not really, no.

Mr. Chairman: Can you tell us what happened?

Mr. Dixon: We spent a lot of money. We have been resoling shoes for years.

Mr. Chairman: Did Kelly Douglas purchase the business, and then you buy it from them, or did you just purchase the inventory?

Mr. Jorgenson: Well, it was bought through receivership. That is about it, and we paid a lot of money for the business.

Mr. Chairman: And then you set it up and you two are the sole owners, and you do not owe anybody except for your inventory, which I imagine is on a revolving basis anyway?

Mr. Jorgenson: Yes, that is right.

Mr. Chairman: Where do you buy most of your dry groceries and produce?

Mr. Jorgenson: Kelly Douglas, Canada Packers, or just about fifty different companies that we buy from.

Mr. Chairman: What percentage of the business do you do with Kelly Douglas, roughly?

Mr. Jorgenson: Maybe about 40 percent.

Mr. Chairman: Who do you buy your meat from.

Mr. Jorgenson: Mostly Canada Packers, some with Burns.

Mr. Chairman: And you have a butcher shop in the store.

Mr. Jorgenson: Yes, we do.

Mr. Chairman: Do you buy from Palm Dairies at all?

Mr. Jorgenson: No. We bought from Palm Dairies probably the first two months we were in business and just did not like the service, so we went over to N.A.D.P., or Canada Packers, which is its agent.

Mr. Chairman: Do you find that they are competitive in price?

Mr. Jorgenson: Yes. Outside of that freight rebate deal.

Mr. Dixon: That is illegal for N.A.D.P. We are billed out of Edmonton, and in Alberta it is not allowed to do that. They are billed from Whitehorse.

Mr. Chairman: Billed from the Burns business here in Whitehorse?

Mr. Dixon: Yes, they are billed from Whitehorse. We are billed from Edmonton and it is against Alberta law for them to give us the same deal.

Mr. Chairman: Then, in other words, N.A.D.P. could not give you the freight rebate that Palm Dairies was giving to other retailers.

Mr. Dixon: Not unless they billed us from here.

Mr. Chairman: And Canada Packers no longer has a business in Whitehorse?

Mr. Jorgenson: No, they do not.

Mr. Dixon: So we pay more for our milk.

Mr. Chairman: How large is your store?

Mr. Jorgenson: It is almost 7,000 square feet, about 5,500 retail.

Mr. Chairman: One of the questions we have asked everybody is what basic policies you set when you set your prices in your store. Do you use, basically, the same system that we

heard from other retailers?

Mr. Jorgenson: Yes.

Mr. Dixon: Basically the same system you are going to find all across North America.

Mr. Chairman: One of the other questions that used to be a burning issue, which has since died down somewhat, I understand, in our experience in the territory, is that some people thought the practice of adding the cost of freight to an item before they added their markup was unfair. At one point in time it used to be a very hot issue, because many people used to think that this should not be done. Other people, I think, have taken a different attitude since then. But how do you operate?

Mr. Jorgenson: It is a cost. Freight is added, and the markup on top of that.

Mr. Dixon: Vancouver adds freight if something is shipped from Toronto. It is just that it is all so hidden it is not noticed, but it is done the same way.

Mr. Chairman: You consider it a cost of doing business?

Mr. Dixon: Freight is part of the cost of running your business, like power is a part of the cost of running your business.

Mr. Hanson: Can you give the committee an estimate of the size of the retail business in Whitehorse?

Mr. Jorgenson: No, I do not have a clue.

Mr. Hanson: Can you explain what rules you use to establish your prices?

Mr. Jorgenson: I was here when Mr. Palamar explained his to you, and ours is pretty well the same.

Mr. Chairman: Your lower markup is on your high volume items?

Mr. Jorgenson: Yes.

Mr. Dixon: It is standard.

Mr. Chairman: How standard?

Mr. Dixon: How standard? Vancouver, Edmonton, Toronto, Calgary, New York, Miami, all do it the same.

Mr. Chairman: Yes, I guess what we are looking at is percentages, too. Obviously, when they are doing higher volume in a Safeway Store in Vancouver, your percentage markups can be somewhat lower on a higher volume item. Here, you are not doing the volume out of the same floor space that you are doing in Vancouver, obviously. If you had a 30,000 square foot warehouse in Vancouver, you might do, say, nine million a year, or more than that.

I guess what we are getting at is you just do not do the dollar volume per square foot that you do in a Vancouver store or an Edmonton store, so, consequently, are your percentage markups on a given item higher than they are in those stores?

Mr. Dixon: You mentioned that you were taking Vancouver price checks, but the thing that you might find in the Vancouver market is that if you were to check different municipalities around Vancouver you would find the prices vary around Vancouver. You may not even have to travel miles for that, you may only have to travel a few blocks. I have worked in Vancouver stores that were higher in prices than the stores down the street. I have worked in areas that were higher in price than the next municipality. Vancouver price is something that can bounce around quite a bit.

Mr. Chairman: That is what we found when we looked at the consumer price indexes that change from month to month, sometimes quite dramatically.

Mr. Hanson: Do you have problems obtaining good quality produce?

Mr. Dixon: It is a problem to maintain it, but we do.

Mr. Hanson: How about milk?

Mr. Dixon: The only problem with milk is when there is a problem with the roads.

Mr. Hanson: If you could give an estimate, what would be the biggest thing that contributes to the high price of food in the Yukon? Would it be freight, energy or wages, and what order would you use?

Mr. Jorgenson: The order which you just said, and shrinkage.

Mr. Chairman: How do you mean, shrinkage?

Mr. Jorgenson: Such as in produce, there is shrinkage. It is the dryness of the air. It is very dry up here. We find it unbelievably dry. It just sucks the water out of the vegetables. Either you continue watering them, take good care of them all the time or you can lose up to a quarter or half the product. The same with cheeses. They dry out very quickly. The same with meat.

Mr. Hanson: Do you check prices in other stores around town?

Mr. Jorgenson: We do occasionally, not a lot.

Mr. Chairman: We understand that you do quite a volume of business for mining and exploration companies. Is that true?

Mr. Jorgenson: We do a fair amount.

Mr. Dixon: Mining companies, not so much, but exploration companies, yes.

Mr. Chairman: What percentage of your business is done with those. Have you an idea?

Mr. Jorgenson: Right now, none, only during the summer.

Mr. Chairman: The reason I am asking this is because we had a couple of people who called and said one of the problems that they had with your store this summer was that mining companies, or exploration companies, as you will, were doing business with you and causing shortages on your shelves and they would not shop there any more because they would walk in off the street with a specific item in mind and find that it was short in your store because exploration companies had taken it.

Mr. Jorgenson: I found it the same way, but we rectified that. That was one of our problems. We had only been in business a short time and we wanted to build our mining exploration business. We went all out to get it, but in return we short-changed our regular customers and we realized that.

Mr. Chairman: So what have you done to fix it?

Mr. Jorgenson: We have stayed much more on top of the stock.

Mr. Chairman: You just estimate your own business a little closer?

How many people do you have working for you?

Mr. Jorgenson: 18.

Mr. Chairman: Full time?

Mr. Jorgenson: No, mostly part-time.

Mr. Hanson: Which store do you believe in Whitehorse has the lowest prices.

Mr. Jorgenson: I do not know, really.

Mr. Dixon: Working from 9:30 to 9:30, we do not get out much.

Mr. Chairman: Do you do price checks in other stores?

Mr. Jorgenson: Occasionally, yes.

Mr. Chairman: What have they shown you?

Mr. Dixon: I have not gone myself.

Mr. Jorgenson: I would say Food Fair would probably be the lowest.

Mr. Chairman: Over what period of time has that been?

Mr. Jorgenson: Well, probably in the last six months, during which I have checked.

Mr. Chairman: Since the Food Committee has been in session we have had a great number of concerned residents, consumers, calling and writing us letters, and one of the other things that seems to be a prevalent attitude is that in the last six to eight months, the spread between, shall we say between the major downtown stores, such as Super Valu, Food Fair and yourselves, and Super A, has dropped because, in their minds, Super A used to have a competitive edge in the market in Whitehorse. And it is not so anymore. Do you have any comments?

Mr. Jorgenson: I am not very sure about the whole history of these stores.

Mr. Chairman: What is your impression, over the last eight months?

Mr. Jorgenson: I would say probably Super A has really gone up in their prices.

Mr. Chairman: Is that right?

Mr. Jorgenson: Yes.

Mr. Dixon: And we have narrowed the gap on some items. We do not have our first year under our belts yet. But we have narrowed the gap somewhat.

Mr. Chairman: But you say that Super A has gone up rather than the rest of you having gone down.

Mr. Jorgenson: Yes, I would say so.

Mr. Hanson: How often do you receive shipments from your wholesalers.

Mr. Jorgenson: We receive shipments every day.

Mr. Dixon: Do you have any problems with short orders?

Mr. Dickson: Not all the time. Our rate is not bad. There is something that we did notice. They state on the invoices, generally, just what it is causing the short shipment. They separate the supplier shorts from reorder items, and over the years, supplier shorts have been getting larger and larger. These are the manufacturers and processors.

Mr. Hanson: We had that explained to us, and it has to be brought out in the open, because we are asked this question by many people out of town. They are the ones who seem to figure they suffer the worst of the deal and that is why we have to ask that question.

Mr. Jorgenson: It is the same with metric conversion change-over.

Mr. Chairman: You think that has had a real effect?

Mr. Jorgenson: Oh yes, definitely. Suppliers want to go out of one package before they start on their new metric size, and there could be a two or three weeks lapse before they could get back into the system. That has been a major problem.

Mr. Hanson: How often can you phone, say, Kelly Douglas here in town, and place an order?

Mr. Jorgenson: How often? We get an order from them three times a week. If I need something, I will just drive up. If somebody wants something I will drive up and get it.

Mr. Hanson: If you have a sale item do you have "quantities limited" written on it?

Mr. Jorgenson: Yes, but just what do you mean by that?

Mr. Dixon: We state it in the ad in the paper but we do not say that you can only have one of this or one of that.

Mr. Hanson: You do not say quantities limited. You do not have it in the store, either?

Mr. Dixon: No. Our store is not that big that we can service a huge ad. It is a little out of our league.

Mr. Hanson: And did you participate this year in the truck specials brought in?

Mr. Jorgenson: Yes, we did.

Mr. Hanson: It was satisfactory?

Mr. Jorgenson: Yes.

Mr. Chairman: Can you explain to me how it worked? How you all cooperated? For example, did you all just get together and agree to purchase so much of the load and then bring it up in that manner?

Mr. Dixon: It was the only way to do it or it would not have happened. They had to know what they were bringing up.

Mr. Chairman: And what quantities.

Mr. Dixon: There could not be any guesswork on something like that.

Mr. Hanson: How much loss-leader selling do you actually do? Do you keep track of it?

Mr. Jorgenson: Loss-leader, selling below cost? We do a little bit, not much.

Mr. Chairman: Do you consider yourself more of a convenience store rather than a major outlet?

Mr. Jorgenson: We like to think of ourselves as both.

Mr. Chairman: What I am trying to get at is that if you tried to compete with say, Food Fair, Super Valu and Super A, then you are probably going to have to do quite a percentage of loss-leader advertising, and that type of stuff, to attract people.

Mr. Jorgenson: Also, we would have to make major changes to our store as well.

Mr. Dixon: Our store is designed half way. We can take odd stabs at it, only.

Mr. Chairman: You are a convenience store, and that is why you stay open until 9:30 at night.

Mr. Jorgenson: Yes we are open from 9:30 to 9:30, seven days a week, and closed Christmas Day.

Mr. Chairman: That is a little free advertising.

Mr. Hanson: Kelly Douglas testified last month that they sold most of their Super Valu stores in the west because independent owner-managers could operate the stores more effectively than a corporate chain. Do you agree with that?

Mr. Jorgenson: Probably, yes.

Mr. Hanson: Why, would you say?

Mr. Dixon: They are tighter.

Mr. Chairman: They have tighter management control? Besides, both of you work in the store. Does that have something to do with it?

Mr. Dixon: Well, we are not a Super Valu, but I have worked in a Super Valu independent in Vancouver and they are tighter, much tighter. They either make it or they are gone, so they watch everything.

Mr. Chairman: What do you mean by tighter? What are we looking at?

Mr. Jorgenson: If you went out and bought a business you would make sure that every penny was looked at, right? That is the way we look at it, anyway. We would not want many to slip out.

Mr. Dixon: There are so many costs in this business that it is like holding a handful of sand. If you let those fingers open once, then it is finished.

Mr. Chairman: What you are saying is there are so many costs that if you can cut back in one small area or something, it makes a heck of a difference to you at the end of the month?

Mr. Dixon: No, if you could only cut back in one small area you would not make it. You have to watch every little thing.

Mr. Chairman: Are you still going to be in business this time next year?

Mr. Jorgenson: I sure hope so.

Mr. Chairman: Do you have anything else?

Mr. Hanson: No I do not.

Mr. Chairman: I have one more question. Do you chaps butcher wild meat for hunters at your store?

Mr. Jorgenson: No, we do not.

Mr. Dixon: It is taboo.

Mr. Jorgenson: We cannot do your moose this year, sorry.

Mr. Chairman: I do not have anything else. Mr. Hanson, do you?

Well, gentlemen, thank you very much for coming. We realize that since you have been open since 9:30 it has been a bit of an imposition. I appreciate very much your coming. Thank you.

I think that before we ask Kelly Douglas to take the stand we will have just a short break.

Recess

Mr. Chairman: I will call the Committee back to order.

I would like to welcome Mr. Doug McLellan and Ms Shirley Anne Brown from Kelly Douglas, who have returned to Whitehorse on short notice. I thank you for making the effort to be here.

I should point out that we did meet with Mr. McLellan and Ms Brown at noon today over a somewhat limited lunch. We apologize for being such poor hosts — the sandwiches and coffee were not all that great, we realize. Some of the questions we ask tonight will seem to Mr. McLellan to be repetitive because many of them we covered at noon today, however we want to get some of them onto the record so that we can use them in our report.

One thing I do wish to put on the record, before we go any further, is something I became informed about since you were last here. It is a correction about the Kelly Douglas holdings within the Territory. The correction is that Kelly Douglas does

own the building and land upon which the warehouse is situated. They do not own the Super Valu store property in downtown Whitehorse.

Before Mr. Hanson begins his questions, I have a couple of things that have been given to us during our travels around the Territory.

One was given to me by a lady in Dawson, I believe. I will give it to you. This lady was quite concerned about this. She uses a lot of Tru Milk in her Dawson City residence, and you can see that on the outside of this package it is marked 25 kilograms, and yet when she turned over the label she saw it was marked 50 pounds and 22.7 kilograms. She felt she was being overcharged at 25 kilograms. We have the lady's address.

Mr. McLellan: Mrs. Wilda Webster? May we deal with it directly? Do you want us to report back to you, or may we deal with it directly?

Mr. Chairman: If you deal with it directly, we would like to receive a copy of the correspondence.

Mr. McLellan: Yes. We will get you the whole story. It is, I think, and I do not wish to claim it as fact yet, a conversion where the manufacturer is utilizing some of their sacks or bags to save supply costs, and this may be a metric conversion and is causing some problems. We will get the story and write you and Mrs. Webster.

Mr. Chairman: The other one has been explained to some extent in our discussions with retailers about shorts. It is a number of bills from Kelly Douglas to Alas/Kon Border Lodge in Beaver Creek and a couple of other places, where as much as five out of nine items were shorted, and these people have questions in their minds about why the orders that they had placed were short. A lot of this has been answered, but perhaps you would like to put it on record, Mr. McLellan, if you will.

Maybe we will take it in the form of a suggestion. I would like you to take these orders and write these people a letter giving them the information that we have heard today, if that would be acceptable.

Mr. McLellan: Yes.

Mr. Chairman: Perhaps you could explain it more fully for the record so that there is no doubt in anyone's mind about the shortages we are experiencing.

Mr. McLellan: We are in the business of selling merchandise. The first thing I would ask here is why would not our wholesale have had communication with that customer and say, look, this is the situation. I would criticize our wholesale if that did not happen. There is a responsibility that they know that they have to communicate with the customer.

There are a lot of problems with shortages, and a lot of them are not because of Kelly Douglas, although some of them are. You have to understand, as Mr. Palamar stated, on the question about being out of stock on specials, that it is a judgement decision as to how much you are going to buy. You have the records, you look back, you see what happened, and you make a decision to buy. Generally speaking, I would say that there is a 70 percent favourable decision made and perhaps a 30 percent unfavourable decision made. That is the human element. That is the first issue.

Secondly, it is very, very alarming to us that we have the shortages that we have. I have invoices here from General Foods notifying us that they do not have the stock and to reorder. They may not all be important items, but there are items such as Gravy Train, Ganes Meal, Custard Powder, Brim, Yuban Coffee. It says here that the order you have sent us has been cancelled, please reorder. Here is a complete order from Proctor & Gamble that we placed on September 15, and it includes Crisco, cake mixes, dishwasher detergent, liquid detergent, cookie mixes, Crisco oil, Crisco shortening, and so forth. The order was placed September 15 and it has not been received yet. These people ship by White Pass.

Mr. Chairman: Was it ordered by the warehouse here in Whitehorse?

Mr. McLellan: Yes, by the warehouse here.

Mr. Chairman: May we have copies of the information you

are giving us now?

Mr. McLellan: I will give you these.

Here is an order to S.C. Johnson ordered on September 15, and not received as of October 14.

I was in Toronto last week and I have to tell you that there is a big problem with money with some people for the buying of raw materials because of the high interest rates. They are cutting back. I was told, and whether or not it is true I do not know, but some companies are making what you call a production of a product. They buy the material, they produce it, they ship it out, and that is the end of it. If they are out of stock and do not have the product for some wholesalers who want to order it, or whoever their purchasers may be, they have to wait until it is available.

I can tell you that it is not our desire, but our service level in Kelly Douglas is about the worst it has ever been. The biggest part of that problem is not because of the buyer, the human element problem, it is because of the vendors not supplying. There are transportation problems, labour problems, on and on problems, but I think the biggest problem we are experiencing today is the high cost of money. People are holding back on investing.

Buy the material, buy the boxes, buy the cans, buy the cases, buy the product, put it in a can and get it out as quick as you can, because they cannot afford the overdrafts, they cannot afford the bank interest rates.

We will deal with these customers. Shorts are something we deal with all the time. We have them in Burnaby and are under constant criticism from our customers at our big warehouse in Burnaby.

I attended an independent owner-operator's meeting and one of the biggest complaints they had was the fact that we were short shipping too many items. I have checked with our competitors and they have the same problem — Safeway, Overwaitea, Woodward's stores. It is an industry-wide problem at this moment. I think that if interest rates go down it may be improved.

But coupled with the problem of money, there is an attitude problem that is taking place in the industry. People are perhaps not as conscientious as they used to be, there is a lot of "don't give a damn" attitude about certain things, and the error factor among people in their working habits is extremely high in industry. You must know, yourself. You must experience some of that unless the people in the Yukon are different, and I do not think they are.

Mr. Chairman: Mr. McLellan, do you have an opening statement that you wish to give?

Mr. McLellan: I think it would perhaps be better if you would just ask me the questions you plan and it may take care of itself. If you want it at the end, I could present a couple of things I would like to say.

Mr. Hanson: To refresh your memory for this first question, you stated before this Committee the last time you were here that the standard markup used in the industry would not be increased in a market where competition was relatively weak, but that there would be less loss-leader sales. Could you compare the amount of loss-leader selling that occurs in Whitehorse relative to that in Vancouver and Edmonton? Would this explain part of the difference in price levels?

Mr. McLellan: It would be difficult for me to make a comparison unless it was an assignment that I was given. If I were given it, I could probably do it, but I want to tell you that I saw Super A's flyer in the newspaper, the Food Fair ad that was also in the same paper, and I saw a Riverdale Market ad in the same paper, and although I have not seen our ad yet, I would say that if you compared Whitehorse with a town of comparable size, I would say that the retailers in Whitehorse are in a little bit of a competitive war. I think that the items selected and the prices on them are what we would call pretty warm, pretty hot, and I do not think there would be much difference between that and, say, a situation in Quesnel, which would be similar in size, with three supermarkets. Here, there are Super

A, Super Valu, Food Fair, Riverdale Market, and some smaller stores. That is not unlike the situation in Quesnel or perhaps a town like Terrace or Kitimat. I would not be able to answer the question more specifically.

I could, however, tell you about Naniamo. I think that is an interesting development that is taking place right now. Naniamo probably has, per capita, more food floor space than any place in North America today. Woodward's has opened a new store there, Safeway has two stores there, Overwaita has two stores there, we have two independent operators there, there are two Co-op stores there, and it is my understanding that Overwaita has asked if it could get out of the lease, because they are losing so much money. Woodward's are in there was a tremendous fool floor. Safeway has closed one of its stores and are under some form of revamping to perhaps re-enter the market under a different concept, such as it did in Calgary. I think that when you have a situation like that, someone gets hurt, and hurt very badly. We are fortunate there, because we have independent operators, and we have a low cost rent. We are not into the nine dollars and fifty cents that I know that one of the locations required in that shopping centre, the Rutledge one. It is a difficult question. I would think that in Naniamo, with the way things are, probably you would have a lot of loss-leader selling, you would have a lot of competition, and certainly I think that the grosses that would be expected and required to operate those businesses profitably would not be there, and those companies would be losing money. There would be no question about it, in Naniamo.

Wherever a situation develops where more food space is developed than is required to service the area, someone is going to get hurt. You can only do so much business. When Dr. Dooley summed up his observations, he said that he did not think that another food store here could survive, or rather that someone would not survive. He did not say that a new one would not survive, but that someone would not survive, in view of the population and what is taking place here.

You can have high prices and have no merchandising program and still make money. You can have low prices and a good merchandising program and make money. You can also do either and lose money. As Mr. Jorgenson and his partner said, there are a lot of things one has to look after to make sure that the bottom line is protected. There are a lot of costs and one has to wear a lot of different hats in the retail food business, to ensure that your business continues to be viable.

Mr. Chairman: After listening to your comments, I would like to know if you believe your Super Valu store in Whitehorse could be more efficiently run with an owner-operator?

Mr. McLellan: I think that if we had an owner-operator in Whitehorse, probably it would be. The question came up by one of you gentlemen to one of the independents asking if he felt that a Super Valu store could be run more efficiently by an owner-operator. I think that because he owns the store and it is his own business, there is a lot more attention paid to that business, and I think that when it is a corporate store there is a lot of pressure on that operator to do certain things, maintain certain standards, look after certain things that perhaps an independent does not consider important. From that standpoint alone, he could probably operate that store cheaper than we can as a corporate store. He may have his family involved. He may bring his wife in, he may bring his children in, and make that store less costly to operate compared to what it would be as a corporate store. I think that may answer the question.

Mr. Chairman: When we talk about competition in Whitehorse, is it your opinion that your prices in Super Valu have come down somewhat to meet the increase in competition that we have seen in Whitehorse, or is it your contention that Super A, who seems, at least six months ago, to be the leader in prices in the Territory — at least in the minds of a great number of people, they seemed to be — prices have come up, or that yours have gone down a bit, as a result?

Mr. McLellan: We have not changed any of our pricing

strategy. I think that I made observations here, and they will be in the transcript, of course. This was not six months ago, it was about March. We did some checking around then, and at that time it was felt that Super A's prices were lower, and in the checks that we made I said at the time that Food Fair showed the lowest prices, and at that time, of the fifty-nine items checked, we were higher on nineteen than Super A, but lower on the rest. I was out one evening with Shirley Anne Brown and the manager. We have not changed our pricing strategy, but in the meantime, there has been a marked increase in prices, there is a steady increase in prices. I think I told you that that was what would happen.

Mr. Chairman: And, yet, our surveys, preliminary though they may be, have shown that overall food prices seem to have — and I emphasize those words — to come down in the last little while.

Mr. McLellan: Well, I think I am going to go back to freight, which we are continually pounding on. As Mr. McAneeley said, there are changes all the time, and they are reflected in our landed cost, but there is no question that food prices have increased from the suppliers.

Mr. Chairman: I am sorry. My statement was inaccurate. I should have added, "relative to Edmonton or Vancouver." The price differential that we were looking at when we started the Committee, sometime in April, was a minimum of 18 percent and a maximum of 22 percent, I believe, in that area. It does not seem to be that high anymore. To what can we attribute that apparent turn-around?

Mr. McLellan: I do not wish to misinform you, but if I remember correctly, we had had the increases from the carriers, and the wholesale tried very hard to keep the freight allowances from suppliers where they are fully prepaid or partially prepaid. When the freight rate goes up, we try to go to those people and ask them to go along with an increase in the freight allowances. Freight rates have gone up so consistently, once every two or three months, rather than go continuously to these people, we have waited until we could pick up perhaps six months of accumulated increases and have then applied to them for the increased assistance. Sometimes, that is slow coming through, and when it does come through, we make an adjustment which, in effect, would reduce the prices on those items.

Mr. Chairman: If you would care to have Mr. Eby sit with you at the table, it will be acceptable.

Mr. McLellan: I think it would be important. He is the gentleman who runs the branch here, and although we have a lot of wholesale branches, I know that this place is unique in respect to freight, and we have tried very hard on every occasion to keep those freight allowances, whether fully prepaid or partially prepaid. It is a constant battle. I just had a supplier come to me the other day and say, "what is going on in Whitehorse, you want \$7.95?" I said yes, we need even more than that. He said, "I cannot do that." I said do the best you can. He was fully prepaid and now he is backing down a bit and saying that now he will have to just give us an allowance. On the other hand, there are a lot who do go along with the increases.

Mr. Hanson: The national average gross margin in grocery stores you stated to be about twenty and a half percent. Does not this average take account of loss-leader selling in highly competitive markets? Does not a market with weak competition exhibit a higher gross margin than a highly competitive market, according to your explanation?

Mr. McLellan: You sure give me some tough ones. What you are saying is that where an area is more competitive the gross margin should be lower, because of the loss-leader sales.

I can only tell you that there is a lot of loss-leader selling. Mr. Palamar said that there is probably a greater activity by the consuming public to take advantage of those specials in Whitehorse than there is in other areas. If you ask me how that would affect the gross profit, I would say that the gross profit would go down. The gross profit, instead of being twenty and a half percent, might be eighteen and a half percent. There is no

question about it, if you sell merchandise cheaper, the gross profit is going to go down.

Mr. Hanson: Then, in an area like here, where there is not that much competition, the gross margin would be higher than twenty and one half percent?

Mr. McLellan: But I think you do have that competition here. I think you do. Look at the ads in the paper. Take a look at them tonight, and take a look at the items. They have some good prices in those ads.

Mr. Chairman: I have lived here all my life and I have never noticed the competition as intense as it has been in the past little while. One of our mandates as a Committee is to look for methods to reduce food prices. We have looked at the competition that, to our uneducated eye, shall we say, has increased over the last little while, and has resulted in a lowering of food prices in the Territory, or at least in the City of Whitehorse. It looks like it is working. Maybe this Committee should sit on a full time basis, without any staff, and keep everyone on their toes. Do you have any comments?

Mr. McLellan: I have a real strong comment on that, as I told the Committee, the television, the press and the consumer groups, that from my standpoint, in a retail store, I was not satisfied with that operation. I made it abundantly clear. I found lots of little things in that store that were not being properly looked after, and I criticized myself and took the responsibility. I have people who are responsible to supervise that operation, and I said that they were going to change that and there were going to be more frequent visits. We discussed the produce presentation, we discussed lots of things, including customer service. I make no bones about it. I also said that I would make a commitment, and this was to Mr. Lang, that we would do our utmost to do a better job in the Yukon, and that is where the idea came up where I said to Mr. McAneeley to get cracking right now and give those people up there the best deal you can on peaches, on apricots, on plums, on apples, on pears, and so on. Last week we had a potato sale on. We sold potatoes in Whitehorse cheaper than you could buy them in Vancouver. We sold pears and apples and peaches and apricots and plums as cheap as they were being sold in Vancouver.

You asked, how did that work? Mr. McAneeley lined that up with the supplier. Everyone took a little less. Then he got in touch with the stores and offered the deal, asking if they wanted to go with it. They all went along.

Mr. Chairman: Did everyone get in on that at the same price?

Mr. McLellan: Yes, anyone who wanted to. Dawson, Faro, Mr. Palamar, Mr. Jorgenson, our own Super Valu store. They did not have to. I intend to do more of that. I told you that.

I know that from my standpoint, your food inquiry has made it necessary for me to come to Whitehorse to see for myself what was going on, and I found that lots of things were not right, both at wholesale and at retail. I explained about our produce haul from California. I found out why we had off-condition produce in the warehouse. It was because we were not buying properly here, holding the merchandise too long and selling that merchandise to the stores — inferior quality — while the new stuff sat in the coolers waiting its turn to get off-condition so it could be shipped to the stores.

Maybe you did not follow that. I will repeat it.

We buy a load from California and it goes into the warehouse, but there is so much there from the previous load that has to be shipped first, so the new merchandise, instead of going right out to the stores, sits in the warehouse.

Now, we have changed that. We inspect the produce every morning. Anything in that warehouse that is off-condition is gone — sold off as distress stock.

Mr. Chairman: A lady, and a gentleman, also, recently made the comment that there were too many things being thrown out at Super Valu, and that what they would like to see is this sort of distress sale.

Mr. McLellan: That is what we are doing, and we are trying very hard, first of all, not to have anything in the store that is

off-condition, but if it is off-condition, we like to give it to the people at a lesser price, or give it away.

Mr. Chairman: We will give you a chance to do some free advertising. How can people hear about that? How can people get ahold of that?

Mr. McLellan: Well, Mr. Palamar does it in his store. I do not know what Mr. Jorgenson does. I will ask Mr. Kobayashi, who is looking after Super Valu, what we do. Mr. Kobayashi, what is your policy today on off-condition produce?

Mr. Kobayashi: Off-condition produce is the concern of the produce manager. He has a responsibility. He has to get what he can from the warehouse here. If they ship him off-condition produce, the produce manager phones him and the warehouse reduces the cost to the store, and at the same time reduces the cost to the consumer. A good example occurred today on bananas. The product was good, but the quality was not as good as before, so we had to reduce the price to the store. The warehouse gives the store a credit and the store, in turn, passes on that saving to the customer. That is what is happening.

Mr. Chairman: Is that marked somehow in the store?

Mr. Kobayashi: Yes.

Mr. McLellan: We even try, in the store, to inform consumers of the problems we are having. For instance, we had an issue with milk. The last time we were here, we were delighted to tell you that we were reducing the price of milk because Palm Daries had given us a freight allowance. The day I was last here, there was no milk. We had a sign stating that there was no milk because the truck was off the road or had broken down, or some reason like that. We are trying to do that in the store, but I make no bones about it, there are a lot of things we have to correct in our supermarket, there are a lot of things. It will never change in the food business, when you are dealing with one hundred and eight people doing their job, at both wholesale and retail.

Mr. Chairman: You will be happy to hear that the complaints we have received about Super Valu in Whitehorse in no way compare with the complaints we received about a store in Faro, and, I suppose you have heard this once or twice, but even though we were assured several times that the price of food in Faro equal the prices of food in Super Valu, people refuse to believe it. It is an interesting dilemma that you have, and we wish you well in solving it.

Mr. Hanson: At the last hearing, you made the remark that the philosophies of Kelly Douglas and Food Fair are not different. What, exactly, did you mean by that?

Mr. McLellan: Why do you ask the question, because the philosophy that we have — Kelly Douglas and Mr. Palamar — is no different. We have a social responsibility in the Yukon Territory to do our very best to ensure that the consumers enjoy the best possible landed cost in food. That is the obligation. That is the commitment, and that is the philosophy. Mr. Palamar said it here tonight, perhaps not that way, but he made that connotation. That is what I mean when I say the philosophies are no different.

Mr. Hanson: Mr. McAneeley, when he was discussing the price comparison between Whitehorse and Vancouver that Kelly Douglas was preparing for the Minister, said that the total was 11.2 percent difference, when freight is deducted, and that the real difference is really 6.24 percent, which means that the freight is only five percent.

Mr. McLellan: On that item. On those items, the difference was five percent, on those items.

What we have on this list is 11.2 percent difference, and that is with the freight included. When we take the freight away, there is 6.2 percent difference. Does that answer your question?

Mr. Hanson: The freight is then at five percent.

Mr. McLellan: On those items, sir, yes, that is right. Remember, the last time I was here, we discussed the freight allowances. Do you recall that? I said I would stay all day and explain it if I had to.

Mr. Chairman: I think the last time we met, you said you

would supply us with a copy of that list.

Mr. McLellan: You have one.

Mr. Chairman: Could we get a copy of that one, just to make sure?

Mr. McLellan: Yes.

Mr. Hanson: We are back to Statistics Canada, again, your favorite subject. It states that the average weekly food expenditure is twenty dollars per capita in B.C., and you figured it should be between twenty-five and thirty dollars in the Yukon. Why would you arrive at that figure?

Mr. McLellan: I said I thought it would be, did I not? I thought it would be. I will use the number we use, the number that is used in Vancouver, the number that is used in various areas such as Prince George, Prince Rupert, and I just felt that that was a reasonable number for the Yukon, in view of the freight and the other factors involved. It does not seem unreasonable, that is should be twenty-five dollars.

Mr. Hanson: Your estimate was a guessed figure?

Mr. McLellan: Absolutely. It was not a fact figure. It was my best estimate.

Mr. Chairman: I guess this leads us into the numbers about the total Yukon volume. When you were here last, we estimated that it was somewhere between twenty-eight and thirty-two million, and now we have had other estimates from around the Territory that it is not as high as thirty million. Have you done any more thinking about that?

Mr. McLellan: No. We just did it the last time we were here. I only took the number of people who were in the Yukon, although you could be absolutely right. I will tell you why you could be absolutely right. There could be many people living in the Yukon who are not buying food. You told me about an experience you had in Old Crow, where you went there and had bannock and caribou. There would be very little product purchased in that. Certainly, there would be flour and sugar, but you can make a lot of bannock with a little bit of flour, baking powder and sugar, from what you have told me. I would say that that could change that number, but I used the population of the Yukon, and I used, I think, twenty-five dollars to come to the figure.

Mr. Hanson: We asked everyone in the communities that we visited, but I do not think we established an average from what we were told.

Mr. Chairman: It ranged, I think, between a low in some communities of twenty dollars per person to a high of eighty dollars per person.

Mr. Hanson: Depending on the amount of fish and game that was taken.

Mr. McLellan: I think that that has to be considered, and I did not consider it. I have to agree that that could change it and knock it down.

Mr. Hanson: Could you explain more fully the nature of co-op funds that are used for the promotional activities?

Mr. McLellan: I think the best way to describe it is this. If I were manufacturing Chevrolet cars, and looking for a dealer in Whitehorse, I may ask you to be a dealer. I will ship you cars, you will pay me for them, and you are going to sell those cars. I am also going to give you some money that you can use for advertising, or I will pay for the advertising. That is the best way to describe co-op funds. They are monies that are available from the supplier to promote the item.

It always goes into advertising.

Mr. Chairman: If you do not promote the item you do not get the money?

Mr. McLellan: That is right. You have to make a commitment to do something to get that money, yes. You may have to build a display, you might have to put it into newspaper advertising, you might have to have a flyer. You have to do something with it.

Mr. Hanson: The last time we met, we voiced some concern about the smaller retailers not being treated fairly, and you explained that the biggest volume discount would probably be about three percent. In the report prepared for the Minister by

Kelly Douglas, the table on page 27(a) shows an up-charge ranging from eight and a half percent to thirteen percent. That is a four and a half percent difference. Can you explain the difference in these figures?

Mr. McLellan: When we were discussing the three percent figure, we were dealing with volume rebates. What we have here is some confusion between volume rebates, and a three percent figure that came up — I did not say it. The other question was, what is the difference between accounts in respect to what they buy from our company, in respect to up-charges.

We stated to the Committee that eight and a half percent is the minimum up-charge, and I think the highest up-charge there is thirteen percent. When I spoke with you at lunchtime, I said that there would not be any more than sixteen foodstores in the Yukon that we would be servicing. I also stated at lunchtime that I guessed that it would be unlikely that any of those foodstores would be paying the top thirteen percent, and that the thirteen percent is designed for smaller restaurants, small purchasers. I asked Mr. Eby to give me a report on it, and it was very interesting to me to learn that we do have sixteen accounts, but it was also very interesting to me to find out that Mr. Eby is selling to all of those foodstores at his bottom up-charge, which is eight and a half percent.

Mr. Chairman: The sixteen foodstores that you are supplying in the Territory are all being supplied at the eight and a half percent up-charge?

Mr. McLellan: I checked it out after lunch, and Mr. Eby told me they are all receiving the minimum up-charge.

Mr. Chairman: What explains the difference, then, between a large purchaser and a small purchaser?

Mr. McLellan: How do you mean?

Mr. Chairman: What explains the difference between the cost of a case of beans to Super Valu and the market in Beaver Creek, or is there no cost difference?

Mr. McLellan: There would be the freight.

Mr. Chairman: I do not mean the freight. I am talking about the cost of a case of pork and beans at the Kelly Douglas warehouse. Is there no difference?

Mr. McLellan: As far as I am concerned, if that is a foodstore and it is one of the sixteen, according to Mr. Eby he is charging that store the eight and a half up-charge. If it is not among the sixteen, it is not a foodstore.

Mr. Chairman: Consider another small food store, say in Mayo, if it is one of the sixteen. There should be no difference between the smallest purchaser among those sixteen and the largest purchaser, is that correct?

Mr. McLellan: That is what Mr. Eby said.

Mr. Hanson: Would Danny's grocery store in Mayo be considered one of the sixteen?

Mr. McLellan: Let me back up for a moment and explain this. I told you that usually there would be an eight and a half percent up-charge to the big accounts, and it could go up to thirteen for the small accounts. I explained that the reason was that it is easier for our company to supply a large volume order, a truck load, going to a store, than it is when that truck has to stop at fourteen or fifteen different places. I think I used an example of envelopes. When you buy ten thousand, you get them for half a cent apiece. If you buy a thousand, you pay two cents each. It is the same thing in the food business.

I said that I would guess that we do not have sixteen foodstores in the Yukon, what we call a foodstore. We do not call a gas bar a foodstore. A foodstore is a store that is in the retail food business in a big way, such as D.C.W. Trading, Hougens in Faro, Riverdale, Super Valu, Food Fair. I cannot tell you the rest of them, but I asked Mr. Eby how many there are. You also asked me whose decision it was, and I told you it was at the discretion of the branch manager what he charges these stores. He said there are sixteen that he calls foodstores and that he is selling to them at eight and a half percent, and the reason he is doing that is because he feels that those stores are penalized because they have a freight factor they have to pay,

whereas the stores in Whitehorse are delivered free, F.O.B. their store. It is an indication of his attitude towards the retailer and a social responsibility. He does not have to do that, but that is the way he feels, and I admire him for it.

Mr. Chairman: What I am getting at, then, is the person I mentioned earlier who purchased apple juice. He said that he could purchase apple juice on special cheaper from Super Valu than he could from Kelly Douglas. Now, what you have said, is, if they are both foodstores, the only reason for that would be that Super Valu was selling it as a loss leader.

Mr. McLellan: That could be the reason, yes.

Mr. Chairman: Is there any other reason?

Mr. McLellan: Here is an example. I was in a store the other day and I noticed a tremendous inventory of cigarettes, and I was quite alarmed at the quantity that was there. I asked the operator where he got all the cigarettes and he said, Well, I bought them from you. Subsequently, I asked the manager why he would have all those cigarettes, and it worried me as it had to be about seven thousand dollars worth. Then, I said I supposed he had taken advantage of the market increase, and that is probably what he did do, because cigarettes went up, and he decided to buy some at the old price so that he could have them. Maybe the Super Valu store did that on apple juice, because if you look at the history of apple juice, it is almost like milk, or like gasoline. There is nothing to stop the store from asking Mr. Eby to ship a thousand cases of apple juice and get it now, because he has some information that tells him that apple juice is going to go up. Maybe his sister works for B.C. Tree Fruits.

That could explain it, but you have to have it clear in your mind that there are a lot of people in the Yukon who operate little gas bars with a few grocery items. Mr. Eby does not sell those accounts at that lower up-charge.

Mr. Hanson: I would not say that Danny's Department Store in Mayo is a Super Valu, but in Mayo it is the major store there.

Mr. McLellan: I am not familiar with the account, but I can tell you that if it is a foodstore and he is in the sixteen, he is getting that deal. Can you answer the question, Mr. Eby?

Mr. Eby: It is on the list.

Mr. Hanson: That is the question I asked in the first place.

Mr. Chairman: Some people may not understand why we ask these questions, some of which may appear very simple, but to some areas in the Territory they are the difference between life and death, literally, in some instances, and possibly we have been infected a little bit, after travelling to these communities and seeing the problems that they really do have. We see Old Crow, which probably has a one hundred percent higher price on the very few groceries that are carried in the Old Crow store, and the average salary is probably three or four thousand dollars. It is a matter of life and death there, and in some instances we may ask questions that may sound stupid, but to these people in these communities it is a very real daily problem that they live with.

Mr. McLellan: They do not sound stupid to me, because when you speak of Old Crow, I remember when I first came here we were supplying Old Crow and used to ship merchandise to Dawson City, from which it would go by boat on a boat called the *Brainstorm*, and the *Brainstorm* would go up the Yukon River to the Porcupine River, and then into Old Crow. Apparently that boat was in a wreck, and now everything is flown into Old Crow at fifty-five cents a pound.

Mr. Chairman: There are several prices floating around.

Mr. McLellan: And, that is a co-op. It is run by the band. Imagine fifty-five cents a pound on a sack of potatoes.

Mr. Hanson: It is one dollar and forty cents a pound for produce.

Mr. Chairman: If we sound reasonably intense on some of these questions, it is because we have been affected by what we have seen around the Territory.

We have asked this question once before, about profits as compared to up-charges. If you are telling us that all sixteen

grocery stores operate on the same up-charge, it kind of kicks a hole in our theory that it is very difficult for a small retailer to compete with a Food Fair or a Super Valu if his upcharge is three or four percent higher than a Super Valu or Food Fair, and we are talking about profits of two percent as an industry average. One must admit it would make it extremely difficult for a small retailer to operate in the Yukon market.

Mr. McLellan: I think it is only fair to take into consideration the other costs they all have. For example, a two thousand square foot store rent may be two dollars a square foot. In a sixteen thousand square foot store, the rent may be six dollars a square foot. It is important whether or not they have a union. People know that the store in Whitehorse has a union. There are costs in that store that other stores in the Yukon do not have. We have to fly man and wife out, according to the contract, air fare. We have to pay for that. They have employee benefits, or what we call personnel costs, the wages in the store. There are a lot of restrictions placed on us by the union. I am not arguing about it, I am delighted that we can do it, but it makes a comparison with the person who does not have those problems difficult. Who is the winner? If you take everything into consideration, the person who is paying more money for the merchandise could be ahead.

Mr. Hanson: Mr. McLellan, you explained to the Committee that the need for service is not outweighed by the cost. If White Pass caused you to carry an extra one million dollars in inventory, as you explained, that would cost an extra \$200,000 per year, with interest at approximately twenty percent. White Pass specified that it could ship goods into the Yukon at about half the cost of using trucks. On a million dollars in freight that would save Kelly Douglas over half a million dollars a year. Can you explain this apparent discrepancy?

Mr. McLellan: I think you are dealing in one case with inventory, and in the other with freight. If you considered a million dollars worth of inventory, the freight cost on that would probably be ninety-five thousand dollars. I said that when the White Pass container boat was on a weekly service to Whitehorse from Vancouver, we used that boat and enjoyed it for many, many years, the C.D. Brown. White Pass, because of the asbestos contract with Cassiar being discontinued, discontinued the weekly sailing and reverted to once every two weeks. I said that because they did that, they caused us serious problems. We had to carry more inventory, and I used an example, perhaps a million dollars — that is not too far out — that we had to carry in additional inventory. I also told you that the service level to our customers was severely jeopardized. I also told you that a lot of our customers complained bitterly, and we were in a position of risk where they would not buy from us but would buy instead from Edmonton wholesalers. Mr. McAneeley added the fact that we were faced with an additional cost of unloading those containers because they would all arrive at one time, and because we were out of so much merchandise, we would have to pay overtime to get them unloaded. So, that is why we changed. I do not think you can put the dollar investment in inventory against a freight factor. I think you have to look at why we did it.

Back to White Pass — "at half the cost?" I challenge that, because I have the rates, and I would also like to go on record saying that White Pass has said that it has a rate of \$2.75 — we are told that. That was made public by your Committee, on television, and in my best information, it is absolutely inaccurate. The lowest price that we have ever been able to get from White Pass, on a 24,000 pound container, was \$6.65 a hundred-weight.

Mr. Chairman: We have a filed, published rate here from White Pass. On a full container load from Kelly Douglas, Buranby, or North Vancouver to Whitehorse, of \$4.25 per hundred, based on a 24,000 pound container.

Mr. McLellan: In all of the experience we have had, Mr. Chairman, with White Pass, the best rate we were able to obtain was just under \$5.00 per hundredweight, and that was in 1978.

Mr. Chairman: This is a 1980 published tariff, and I will give you a copy of it. The price I was looking at is, from North Vancouver, British Columbia, to Whitehorse, for eight containers per sailing, or over, and I imagine you are in that category, \$1,020 per container, and at an average of 24,000 pounds, I think it works out to \$4.25 per hundredweight. That is what we based a lot of the questions on that we have asked about freight charges.

Mr. McLellan: I can certainly see that there is some confusion. We have a traffic department in our company, which deals with shipments from all over the world. I said to them that it was stated that White Pass has a rate of two and three-quarter cents a pound. I said I wanted to know everything about what the current rates are, because this is very serious. We have a commitment to respond. In all our experience with White Pass, the best rate we were able to obtain was just under \$5.00 per hundredweight, and that was in 1978. White Pass tariff rates, as of September 1, 1981, as per telephone call to the Vancouver office on October 9 were: groceries, 24,000 pounds, \$6.65 per hundred; 36,000 pounds, \$6.35 a hundred. On produce: 24,000 pounds, \$7.40 a hundred; 36,000 pounds, \$7.05 a hundred. I can see your confusion, but you can also see mine. I think what I will do is deal with this separately and report directly to you in a letter.

Mr. Chairman: We would appreciate that.

Mr. McLellan: That is absolutely confusing to me, and more confusing is the statement that was made about the \$2.75 rate. This is what was said, and it makes us look questionable.

Mr. Chairman: Possibly, the confusion on the \$2.75 rate was that I believe that we got that rate from White Pass based on a 40,000 pound container. I do not know how realistic that is. That would mean that you would have to load all pork and beans and apple juice in that container.

Mr. McLellan: We are going to get back to you by letter directly on that subject, because I think it is unfair for you to be put in this position, but I also think it is unfair for us to be put in this position.

Mr. Chairman: In writing our report, if we can see economies by using White Pass, then we are going to criticize you for that; let me leave no doubt.

Mr. McLellan: I told the Committee, not once, but every time I have talked to anyone, we had an excellent relationship with White Pass. I did not like the idea of changing. We did not change overnight. It took a long time. It took people like Mr. Palamar to threaten me that he would not buy from me any more. It took our own Super Valu store, with problems of being out of stock, raising Cain with me, telling me that they could not continue to service the customers. That is the real reason. It was not a question of dollars and cents. It was a question of service, and having the product for our customers. In other words, that is the priority. The dollars and cents were not the priority. We will clear it up for you, once and for all.

Mr. Chairman: One other thing that comes to mind is, you stated this summer that Kelly Douglas has invested in buildings, equipment and, I believe, inventory as well, something in the neighbourhood of five million dollars, and that you felt that you should get a nine percent return after taxes on that money, which averages out to \$450,000. What we are asking is, does that exceed — and we have done our own rough calculations of what your volume is — the one and one-half percent margin on sales by a considerable amount?

Mr. McLellan: I do not know, but I do not think that your mathematics is right. You are dealing with the return on the five million dollar investment, and working on a nine percent investment? You have to work from sales.

Mr. Chairman: Yes, but based on what you said, you felt you needed nine percent on your investment.

Mr. McLellan: Eighteen percent, or nine percent after tax. It is not unreasonable today, when you get twenty percent at the bank.

Mr. Chairman: The fact remains that we are talking about your return on investment. You felt that you should have a

\$450,000 profit after tax. Based on the sales that we estimate you have in the Territory — we have come up with several estimates and have argued among ourselves — but even based on our high estimates, the \$450,000 profit that you are taking out of the Territory at the present time, based on an industry average of one and one-half percent profit on sales, is exceedingly high.

Mr. McLellan: First of all, you do not really have a sales figure, and I think I have said to you before that you are getting into the area of confidentiality. I think I explained that Mr. Campbell, our Senior Vice President of Finance, has dealt with Mr. Oulette, at Consumer and Corporate Affairs, in Ottawa, and I would like to leave it like that, because I do not think it is right that I should disclose confidential information about our operation in Whitehorse, in respect to its profits. I really do not see the significance of what money we are making in Whitehorse in respect to the variance of food prices between Vancouver and Edmonton, and so forth. I think that was the objective, that was the commitment that we started off with, and now we get into this business of the witch hunt about Kelly Douglas profitability in Whitehorse. I am not prepared to give any information on that. I am not at liberty to do that. I am not authorized to do that, and I think that if we have to get into that, then I must go back and discuss it with the Senior Vice President of Finance. I have been through this one about three or four times.

Mr. Chairman: The reason I ask it, I guess, is we have never received any information, confidential or otherwise, from yourself, on the total retail sales that Kelly Douglas has in the Territory, or Super Valu has in the Territory. Nor have we ever received any information from you, confidential or not, about the total profit you make in the Territory. We are deducing that from the figures that we have available. However, one of the common complaints we hear everywhere we go in the Territory, is that Kelly Douglas is ripping us off. Based on the figures that we have, the question I am asking you is, do your profits exceed the industry average of one and one-half percent to two percent, in your opinion, excessively, or do they not?

Mr. McLellan: I do not think it is excessively. I just prefer — I will not answer the question, sir. I will not answer the question. I will not answer the question. I am not at liberty to answer the question. I think that that is another area that we have to deal with in private. There are a lot of people here. Competitors are allowed to get at this information. It is something that I cannot talk about.

Mr. Chairman: We do not have any problem there. We have heard it a number of times, in every community in the Territory, as a matter of fact.

Mr. McLellan: You are going to get people who are living in the Yukon, or are living in Vancouver, or living in Ottawa, or living in New York City, or living in San Francisco, talking about the people who are in the food business — Dominion Stores, Steinberg's, Safeway — ripping the people off in the food business. It's like people smoking cigarettes. It is not something that is unique to the Yukon. It is happening all the time.

Mr. Chairman: Interestingly enough, and I guess this is more for public consumption than anything, is, in one particular area of the Yukon — I think we visited about seven, so this is not going to tell any secrets at all — in six of the seven communities, we had complaints about the retailers. In one community there were the complaints much the same as we heard everywhere else, but the retailer in that community gave us audited financial statements in confidence, of the last six years, and we found that they took a loss in five of those six years, so it was enlightening to us. That is only an aside, but it is interesting information.

Mr. McLellan: For some reason or other, there is some concept that the food business is a very profitable business. As Dr. Dooley knows, in his experience, it is a tough business to be in. Competition, the various problems that you have operating a business, the pilferage, the bad cheques, the staff pilferage,

the customer pilferage, the losses that you take. It is not any great big bundle of joy. I guess a good store manager would work, to do a good job, I think, seventy hours a week. There is a misconception in respect to the food business, but I know that that stigma is there, and I support your observation, and I support your concern.

Mr. Chairman: Alberta Grocers appeared after you did before the Committee, and made a statement that they had, in their opinion, twenty-five to thirty percent of the retail market in the Territory. Is that supported or substantiated in some part by your own calculations?

Mr. McLellan: I think it is about right. We estimated twenty-one percent.

Mr. Chairman: So your figures agree with them, roughly?

Mr. McLellan: Yes.

Mr. Hanson: If Kelly Douglas receives a cash allowance for early payment to suppliers, where do these funds go?

Mr. McLellan: They are kept in Kelly Douglas. Cash discounts are kept by the company. They are not passed on to the trade, and they are not considered in the cost.

Mr. Hanson: How about volume discounts?

Mr. McLellan: There is some manoeuvrability there. I think I explained to you today that sometimes they go into the cost and sometimes they do not, depending on the investment we have to get involved in. If it is a long investment, a long holding period, we may decide we are going to keep them. If it is a fast thing, in and out, we pass them along. It is a decision that we make at our discretion.

Mr. Chairman: In your Kelly Douglas operation in Burnaby, would you say that the industry average profits made out of that warehouse are about normal?

Mr. McLellan: You must remember that in that type of business we are a wholesaler. You cannot compare us to Safeway. Safeway is a corporate chain store. Safeway has the warehouse as a service centre to the stores. Kelly Douglas has the wholesale which is a profit centre. Kelly Douglas sells to stores, and they are also a profit centre. So, you have a different concept. In that type of business that we are in, yes, with other people who are in that same business.

Mr. Chairman: What you are saying, then, is that MacDonald Consolidated, who supply Safeway stores, are really not in the same business as Kelly Douglas?

Mr. McLellan: They are in the wholesale business in Victoria. They were in the wholesale business in Fernie, B.C. I believe they are in the wholesale business in Lethbridge, Alberta and Calgary, Alberta, but in Vancouver, their warehouse supplies only the corporate stores.

Mr. Chairman: I do not think we have any other questions. Do you care to make a statement in summary?

Mr. McLellan: I think perhaps it might be perhaps repetitious and a little boring, but we had requests, and we go back here to January, initially with Mr. Lang and Richard Lawrence, who was his research gentleman, and then Mr. Spray and Richard Lawrence came to Vancouver and met with Shirley Anne Brown. Really, what I am saying is that any time that you come to us you have asked for information, and I think we have displayed full cooperation. The only thing that I have refused to do is give you confidential information as to the earnings of the stores. This is the fourth visit that we have made, and we have gone to considerable expense to be here — ten air fares at \$390.00, meals, hotels, plus a great deal of time in preparing reports for the research. This is all something that is done in the normal course of business, because we have our day to day responsibilities. We do not have a department that can concentrate one hundred percent on this. It has been very, very trying for us.

I am not complaining about that. I do take exception to things that have been said on the radio and television, particularly the television, in respect to Safeway in Edmonton setting the prices for Whitehorse. I take exception to the business about price discrimination, and I take exception to the White Pass rate information that the people have heard, and I take excep-

tion to the fact that, I think, our credibility in Whitehorse has been damaged by the things that have been said. I think that someone should put the record straight.

I have told you, and I have told the radio, and I have told the television, and I have told the consumer groups and your Committee that we have a social responsibility in the Yukon. We are just as anxious to work this thing out as you are. If anyone can show me how we can do it better, with the investment involved — satisfy the consumer, satisfy the shareholders, and do the job — we are open, one hundred percent, all the way.

We have a good facility here, and we have a supermarket here that is as good as any supermarket in North America. It has some problems, and the problems are being dealt with. The problems were recognized by myself on the three visits I made up here. We have had some problems with the wholesale, we have had some problems with our people, no different than you have had, right in this building, every day. We are trying very hard to correct those problems. We do not walk on water. We are here to make money, there is no question about that. That is why we bought the business from Tourist Services, but I can assure you, sir, that if Kelly Douglas was not here, the people in Whitehorse would be paying more money for food than they are today, because of the freight assistance and fully prepaid factor that we have been able to negotiate. I know you are sick and tired of listening to this, and I am just about as tired of talking about it, but I want to go on record saying that our concern here today dealt with the price difference. If Dr. Dooley wishes, we will work directly with him to come up with a model to satisfy you.

What is the real difference, because we do not know. This is the problem. We are looking for this hidden five percent, or whatever the difference is, and before we can establish that difference we must know what is the true difference. Well, we do not know that. We said to you today that we did some price checking, and it throws the theory that you have and that we have had, as a group, if you want to call it that, all down the drain.

Further to that, I brought the article from the newspaper about Statistics Canada, that only supported what I said last time. They cannot depend on it. So, if Dr. Dooley would be kind enough, Shirley Anne Brown and I will work with him to establish a base, so we can identify it.

Something came up here tonight that is very important, and I do not know why I am so stupid. Mr. Palamar brought up the tax business. That is very important. I am looking for the difference here, for this percent. One more issue that came up, which Mr. Palamar did not mention, but I thought about it and made my mind work, you have to remember that you are very critical about us because we take a markup on freight. That is another factor that must be considered when we are looking for the hidden percent. Dr. Dooley, I think maybe there is a key there. That hidden percent has two issues that we have not considered in the formula. One is the tax. Number two is the markup on the freight. They are very important. If you consider an item that costs six dollars in freight and it is marked up eight percent, that is fifty cents. If the item is worth five dollars, fifty cents is ten percent, and we are looking for something like that. Mr. Palamar is the one who made me think of that.

In any event, we have agreed to work with your Committee, and we will still do that. The next move will be up to us to fill these commitments that we have said we will do. It will be up to you to come back to us if you want us to go further into this inquiry, as to how this should be handled.

The last thing is that you are going to visit the warehouse, and on anything that you want to know about the food business in North America, we will try to help you out, because I know the assignment you have. It is a difficult job.

Mr. Chairman: Before you go, there are a couple of things I would like to comment on. The first is that it is good to see that the criticisms you have made were not so much criticisms of the Committee as of some of the testimony that we have heard.

Mr. McLellan: Dr. Dooley straightened me out. It was what was said, and I understand that.

Mr. Chairman: I think that we have to make that very plain. We do not apologize for anything we have done or said up to now, because what we have done or said is, we believe, in the best interests of Yukoners. We believe that we have had some effect, up to now. Your comments and Mr. Palamar's comments, that as the competition increases, he has to sharpen his pencil a little bit too, leads us to believe that perhaps we have had some effect. We only hope that it is a long term effect.

Mr. McLellan: There is one thing I would like to add to that. Dr. Dooley is a very, very intelligent man. He is a professor of economics, and he said what others had said. The people only heard what Dr. Dooley said about that \$2.75. They only heard what he said about Safeway. They did not hear him say, "I was told," or, "somebody said," and he came across that way to the everyday, ordinary guy. I had several people listen to the tapes in Vancouver, and asked for their opinion. I told you what they said. They said that Kelly Douglas and Super Valu in Whitehorse were given a bad name through those television summations. I am not criticizing, I am saying that is what in fact did happen. We have been harmed. It is unfortunate, but we are still going to fight, with you, to get this problem solved, and I just want you to realize that we have come up here and been very, very sincere and very straight forward. We have not missed one thing you have asked for except what is confidential. We think that we deserve some respect in respect to our position, and maybe some banner of acclaim, because we have done a good job up here, and I am proud of it. That is all I have to say.

Mr. Chairman: We appreciate your coming. I think I have said that before. There should be no doubt at all in your mind that we appreciate your coming. Whether or not your business is going to get a fine round of applause from us in our report, I guess we will have to wait to see.

Mr. McLellan: I do not expect that.

Mr. Chairman: The effort that is being put forward is appreciated, and I think for the record we should also say that the information we have asked for we have had given to us.

Mr. McLellan: I do not mind criticism, as long as it is fair and as long as it is factual. I do not like it when it is not factual. I would deal with those four items, the freight, the Edmonton prices, and so on.

Mr. Chairman: I hope that in working together we can come up with some kind of a figure that we can all agree on, other than government figures.

Mr. McLellan: We will come back to you with what you have asked for here. The next move will be up to you as to how you want to receive any further information from us, is that right?

Mr. Chairman: When we come to your warehouse tomorrow morning, we will have an answer on that.

Thank you very much. We are very happy to have you all stay with us until this late hour. We appreciate it very much. We will have our report, hopefully, in mid-November, and it should be interesting. Thank you again.

Adjourned.

