

CORNER OFFICE

ART DEFEHR PRESIDENT AND CEO, PALLISER FURNITURE

Immigration activist not an armchair CEO



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When Art DeFehr was a college student, he marched with Martin Luther King and protested against the Vietnam War. It was the 1960s, and as a young Winnipegger attending a U.S. Mennonite college, his political activities caught the attention of the FBI – and it cost him a Canadian diplomatic career. Instead, he joined the family business, Palliser Furniture, and almost 50 years later, he remains an activist. While running Palliser, he has headed refugee programs in Africa, and was a catalyst behind Manitoba's nominee immigration program, which has sparked a dramatic increase in the number of immigrants to the province since the late 1990s.

So at first you didn't plan to go into business?

I passed the diplomatic exam, had a job lined up, but asked for a deferral for a year in the U.S. to get another degree. It was the civil rights era and they took away my security clearance. I discovered the FBI had done me in, and so I went to Harvard Business School instead.

I figured I'd go into business where nobody could tell me what to do. And I joined the family business because I thought it would give me freedom. I had done very well at Harvard and I could have worked anywhere, but these [corporate] guys don't have freedom – you can be CEO and still be fired.

How did your refugee activity get started?

The first assignment was [with the Mennonite Central Committee] in Bangladesh in the seventies after the civil war. I was running my business, and my wife and I took two years there. I had a Harvard business degree and I could organize things a little bit. In my career, I've spent hundreds of millions of other people's money – people are grateful you can figure out how to spend it in a way that they can justify back home.

So has that sense of service animated your business career?

I've always liked to work for a cause. I do enjoy business but it also gave me freedom and financial wherewithal. I could often go into a program and fund [my own work], and then other money would often follow. People would join in.



Palliser Furniture president and CEO Art DeFehr has oriented his family-owned furniture business toward employing immigrants. JOHN WOODS/GLOBE AND MAIL

ART DEFEHR

Title

Owner and CEO, Palliser Furniture, Winnipeg.

Personal

Born in Winnipeg in 1942.

Education

Degrees in economics, commerce and business.

Career highlights

Worked for Mennonite Central Committee in Bangladesh, 1972-74.

UN High Commissioner for Refugees, Somalia, 1982-83.

Worked in humanitarian and education programs in former Soviet Union, now Russia.

Helped lead Manitoba Business Council initiative to boost immigration.

How did you get into United Nations work?

I was head of [the UN refugee effort] in Somalia in the years during the fight with Ethiopia. The Canadian government called and asked if it could nominate me – I had never even applied. I agreed to go to the interview and I got the job. No internal candidate would take it – it was a career killer. It was 1982-1983, the Cubans were there, and there was African politics, Cold War politics, UN politics.

How did you keep a business going when you were so preoccupied with aid work?

In the early years my father was still there and in the middle years, there were my two brothers – my older brother, particularly. If I would go away, he would just keep running it.

Was it a leap to become a champion of immigration at home?

It goes back to a lot of my refugee work. I was active with settling many, many dozens of refugees – the Vietnamese, particularly, and then some of the Africans. I worked in the boat people camps. I was involved on both the policy side and the personal side.

In the factory, we oriented our business toward immigrants. We developed special programs for immigrants and a lot of them were refugees. We got national awards for the best programs for the English language in the workplace. We had programs to deal with the person getting off the boat with no industrial experience and making them useful. It isn't that hard – a lot of it is thought and technique.

How did you get involved in the Manitoba nominee program?

It started with 10 business people. We all sat around in a circle the first meeting, and talked about our kids. Everybody's kids were doing great but they were somewhere else. We decided it should be possible for the kids to have a career here – they shouldn't have to go around the world.

One of the pieces was you have

to have a more vibrant city. Kids want excitement. It's the Jets hockey team; it's the Manitoba Theatre Centre. But without population, nothing gets built.

We were totally flat at 3,000 immigrants a year [in the 1990s] and very little of that was real immigration. If we were going to get immigration, it had to come in a different way. We realized we had a role in it [as a business community], and we concluded early that the federal program couldn't be made to work for us. [The provincial numbers have since risen to 15,000 immigrants a year] We want many of the same things [as the federal program], but we look more at work experience. If you are 35 years old, have you held a job the past 15 years, what did you do, do you have a stable family, and do you have connections to Manitoba? Certainly, education counts but a PhD could be a negative. Unless you have a very particular job, the PhD won't help you. You could be frustrated.

You've said that Canada should target U.S. illegal immigrants. Was that tongue in cheek?

Not at all. But I would pick my spots. I would go to the U.S. Northeast, to the industrial states and set up a certain kind of advertising. We should say, 'Here is what we're looking for – someone with 10 years experience living in North America; speaks Level 4 English; and has certain skills – plumbing, welding or construction. And we want families. We'll give you health care, your wife can work if she wants, and after three to four years, we retroactively give you the credits to become a citizen.' They are already motivated, already accultu-

rated – you know who they are. Just move them across the border – it would be zero risk.

Does manufacturing still have a hope in Canada?

We're still manufacturing in North America but we are smaller and we have become a custom order house. My issue is that the Chinese phenomenon was a 10-year phenomenon. They came artificially with a huge labour force, extremely low costs and not paying attention to rules and the environment – and that killed a lot of our industry. If the process had been slower, a lot of people like myself would have been better able to adjust and keep more of it here.

We allowed a very short-term Asian phenomenon destroy more than needed to be destroyed. I'm not fighting globalization but I think it should have been managed differently.

You've said you are artificially keeping 600 jobs in Canada. Could you do all your manufacturing in Mexico where you have 1,200 jobs?

I could. But there is a service element which helps in being Canadian-made, and I am learning to get better. As I change my designs I am getting more competitive in Canada again, but I almost lost it all.

I could have moved it all, but I hung in for personal reasons. I was proud, I valued the people and still do. I grew 28 per cent in first six months of this year and I am adequately profitable, but in between it was tough. Two to three years ago, I put a lot of my own money back in to save the company.

FROM PAGE 1

McKenna: P3 deals are politically seductive

Too little is known about how these contracts work, who benefits and who pays.

This week, public-private partnerships will take centre stage when the House of Commons operations committee resumes a series of hearings on P3s, stacked with witnesses who like them.

A P3 works essentially like leasing a car or TV, rather than paying cash up front. At the end of the day, governments pay substantially more, but if something goes wrong, someone else is responsible.

There are various P3 models. But in most cases, teams – typically made up of a contractor, an architect, a lender and sometimes an operator – bid on a project.

The winning group puts up the money, takes on the construction risks and then gets repaid when the project is done.

Sometimes, the consortium also operates a facility under a long-term contract, getting repaid in instalments over several years.

These deals are politically seductive. Governments like them because they push spending down the road, pointed out business professor Aidan Vining of Simon Fraser University, who argued in a recent study with University of British Columbia business professor Anthony Boardman that taxpayers are too often getting a raw deal.

"They get a service now and they get someone to pay for it later," Prof. Vining said. "From a political perspective, there's always an advantage to that."

Governments are essentially "renting money" they could borrow more cheaply on their own because it's politically expedient to defer expenses and avoid debt, Prof. Boardman added. P3 has become a "slogan" with often dubious benefits, he said.

Based on a new study of 28 Ontario P3 projects worth more than \$7-billion, University of Toronto assistant professor Matti Siemiatycki and researcher Naeem Farooqi found that public-private partnerships cost an average of 16 per cent more than conventional tendered contracts. That's mainly because private borrowers typically pay higher interest rates than governments.

Transaction costs for lawyers and consultants also add about 3 per cent to the final bill.

To make an apples-to-apples comparison, Ontario factors in a risk premium compared with doing procurement the conventional way.

The premium reflects the risk shouldered by the private partner, including construction delays, cost overruns, design flaws and fluctuating future revenues.

The result: The average premium is 49 per cent, making the P3 the better value on paper in

every case, according to the Siemiatycki-Farooqi study.

Unfortunately, quantifying those risks requires a bit of accounting hocus pocus – a concern highlighted by Ontario's auditor-general.

Or, as Mr. Siemiatycki and Mr. Farooqi put it: "No empirical evidence is provided to substantiate the risk allocations, making it difficult to assess their accuracy and validity."

Without putting a fair price on risk, taxpayers will never know whether P3s are any cheaper than building things the conventional way.

Set the value too high, and P3s become vehicles for governments to subsidize inflated profits of powerful and well-connected contractors and financial institutions.

Notwithstanding these red flags, Ottawa and the provinces continue to embrace the public-private model.

P3 Canada Inc., Ottawa's \$1.24-billion P3 fund, has sunk more than \$300-million into various projects since the summer, including a GO Transit maintenance yard in Whitby, Ont., an airport in Iqaluit and Edmonton's ring-road. This week's hearings are likely aimed at building a case for spending even more in the next budget.

Lost in the fog is the real risk that current and future taxpayers are paying way too much for vital public infrastructure.

FROM PAGE 1

Housing: 'Softening prices'

Most economists expect prices will fall over the next year, but many say a correction in the neighbourhood of 10 to 15 per cent would be a healthy development for the market.

"While prices may be holding up, there is now widespread evidence that home sales tumbled in almost every major city last month (save Calgary)," Bank of Montreal economist Douglas Porter wrote in a recent note. "Our monitoring points to a national decline in sales of 15 per cent year-over-year, with average prices at best holding flat."

A rise in activity in Calgary might help to offset some of the declines at a national level, Royal Bank of Canada economist Robert Hogue said.

But a number of cities whose housing markets have been solid in recent years, such as Ottawa, Montreal and Winnipeg, saw sales decline between 14 and 17 per cent last month from the previous September, Mr. Porter noted.

Sales in the Greater Vancouver area fell 32.5 per cent from a year ago, and 8.1 per cent from August, according to the region's real estate board. But the average price of a home still stood at \$606,100, down 0.8 per cent from a year ago.

"It's just a matter of time" before falling sales lead to lower prices, CIBC economist Benjamin Tal said. "I think that in the next six months, we'll see a very clear

trend of softening prices."

He's among those who believe that a price correction now would be positive, because it would be worse if the market held strong until interest rates rise.

"It's actually a healthy softening in a reasonably healthy environment," he said. "You don't want to start seeing a rapid softening due to the impact of higher interest rates. Right now, we're basically choosing to slow. Banks are being more conservative, the government is slowing things, and consumers and home buyers are more selective and more aware of where we are in the cycle. To me this is the healthiest combination for a slowdown."

"I think in the case of Vancouver, in particular, the cooling is welcome," said Mr. Hogue.

Sales in the Greater Toronto Area fell 21 per cent from a year ago, according to that region's real estate board. But prices are higher than they were last September.

Shareholders of the large banks are also keeping a close eye on the data. To date, mortgage debt is still growing by roughly 7 per cent a year.

"If the recent sales declines persist (a big if), this growth in mortgage debt outstanding will cool rapidly," Mr. Porter wrote. "The slowest rate of mortgage growth in the past 40 years was 1 per cent in 1982, during a devastating recession and double-digit long-term mortgage rates."