

Title: Wednesday, April 23, 2003 Public Accounts Committee

Date: 03/04/23

[Mr. MacDonald in the chair]

The Chair: Good morning, everyone. I would like now to call this meeting to order, please. The agenda was circulated, and I would like approval of the agenda if possible.

Mr. Cenaiko: So moved.

The Chair: Thank you, Harvey.

This morning on behalf of the committee I would like to welcome the Hon. Mrs. Shirley McClellan, Minister of Agriculture, Food and Rural Development, and her staff. Before we go any further, if any additional members of her staff would like to join the hon. minister at that end of the table, they're quite welcome to do so. For those that are going to remain at the back, if you would like to supplement an answer, you are welcome to do so at the podium set aside by the *Hansard* staff.

Now, before we get on with the formal business of the meeting, perhaps we should quickly go around the table and introduce ourselves. Perhaps we'll start with the Auditor General's staff this morning.

[The following staff of the Auditor General's office introduced themselves: Mr. Dunn, Mr. Hug]

Mrs. Dacyshyn: Corinne Dacyshyn, committee clerk.

[The following members introduced themselves: Ms Blakeman, Mr. Cao, Mr. Cenaiko, Ms DeLong, Mrs. Jablonski, Mr. MacDonald, Mr. Marz, and Dr. Taft]

Mrs. McClellan: Shirley McClellan, minister.

[The following departmental support staff introduced themselves: Mr. Manning, Mr. Moholitny, and Ms Rault]

Mr. Steel: Good morning. Alan Steel, president of AFSC.

The Chair: Thank you. Just for everyone's convenience, you don't have to touch the microphones. The *Hansard* staff do that. For those of you who are visiting this room for the first time, it may be a little bit different than, say, room 512, but just make yourselves at home. Also, there are coffee and muffins in the kitchen adjacent to the front here. Okay?

At this time if the hon. Mrs. McClellan could please give us a brief overview of the department before we have questions from the committee members.

Mrs. McClellan: Well, good morning. It's great to be with you this morning. I think we missed this body last year, so it seems like a long time since we've been here. You've met a lot of the people that are with me, but I'd like to introduce to you, for those who don't know, just a few more. Dr. Cornelia Kreplin is here. She's with our food safety division. Marilyn Boehm is here. She's the director of strategic direction and measures. You met Faye, Alan. Krish is here. Krish is the vice-president of administration, Ag Financial Services Corporation. Terry Willock is here from communications and Jeff Haley and Maureen Osadchuk from my office. I don't think I missed anyone; did I? No.

The year we're going to examine was an interesting year. It was a year, I would say, of challenge and change, particularly in the confined feeding operations legislation. Of course, that act was passed in 2001, and while the act is under Alberta Agriculture, the operation is administered by the NRCB. This, of course, is the regulatory body for the development and expansion of confined feeding operations. It puts very strict rules on the operators to ensure that our water, soil, and air are protected. The last session of our reorganization of Alberta Agriculture also occurred in that year, and that was the industry development sector. That completed the reorganization of our department. It was reorganized on the advice that we received from the industry during our ag summit process and certainly through information from our Agrivantage teams and was designed to better serve the needs of industry.

The other interesting saga – it's almost like a series on TV – is the development of the ag policy framework, and I think members would remember that the ministers of agriculture from the provinces and territories and the federal government agreed two years ago in June in Whitehorse to proceed with the development of an agricultural policy framework which would carry the industry forward into the next several years. In the period we're going to talk about, we did develop a five-year strategy, and this is unique in agreements. Normally you have about a three-year agreement or sometimes two and at worst case one.

This is a five-year agreement that encompasses food safety, environmental renewal, science and research, and risk management. Of course, our participation was to ensure that our industry's needs were met in that agreement, and Alberta was a signatory of the agreement in Halifax in June of 2002. Now, what we signed in June of 2002 was the broad umbrella framework. In the period since, we've been developing the implementation plan for the agreement, and most of that is done. The four chapters outside of risk management I think are fairly well concluded. Alberta was very well positioned to meet those challenges because we had moved forward with food safety, put an emphasis on it, with the environment, of course research, and other areas.

8:40

We've had meetings with about 600 producers. Now, we do have a lot of producers, but we tried to do it in focus groups and have the average producer out there, not necessarily just the executive of commodity organizations but people who are in fact every day operating an agricultural operation, to talk about the risk management section to make sure that it did reflect their needs. Of course, through Alan's direction at Ag Financial Services we offered the first changes to our crop insurance program this year. We completed the delivery of payments under both the \$10.29 an acre program and the \$4 an acre for pasture program. At that time, that was of course dealing with two things: the rising input costs and drought.

We also had the merger of Ag Financial Services with the Alberta Opportunity Company. That has I think really been a very successful merger, very smooth. Staff and clients seem to be very satisfied with the services. Ag Financial Services, of course, is operating that whole area, and it'll certainly help us in our small business sector, which, as you all know, is really the sector that drives the economy of this province.

I always think we should be reminded of the value of this industry to our province. Even after continued years of drought, we remained one of Canada's agricultural powerhouses. We're second only to Ontario in farm cash receipts, with \$8.3 billion in primary production. We've reached \$9.9 billion in value-added production, and that's a significant goal because that has indeed doubled over the

last decade. In fact, we showed 9 percent growth in just the one year.

The premium quality of our product is certainly important in that way, and the overall provincial status is what encourages people to set up business here. We've had companies, of course, as you would know, come from other provinces to take part in the value-added sector here. Just in the capital region there are over a hundred companies – we don't think of that often – and they ship product to over a hundred countries in the world. Much of that work is accomplished through the Leduc processing centre, one of the jewels of our province, little known maybe but a very successful operation.

So that is just a little bit of the importance of our industry. We are the largest livestock producer. We have the highest number of cattle per province overall and certainly a very, very active equine industry, spanning all areas of horses from Spruce Meadows, which is well known, to pleasure to working to racing. It's a strong industry here and certainly growing.

I think we met our goals fairly well, but you'll ask questions on those, so I won't talk a lot about that. We did pass the Irrigation Districts Amendment Act, which certainly helped the irrigation districts to operate more effectively and manage their water allocations in a more efficient manner, and of course we all know the value of protection of water. There are some very great programs going on with the AESA council, the Alberta environmental sustainability council, and we work in partnership with them. You might be surprised to know that they delivered about 618 technology transfer projects, and the provision, of course, of on-farm technical expertise under the Alberta farm water program has really helped us develop long-term and stable water supplies for our producers.

Food safety will continue to be very important to the Canadian public, to I think the world public. We inspected over 4 million carcasses from Alberta-licensed red meat and poultry plants to ensure that food safety standards in meat products were met. We investigated over 500 incidents of food safety complaints and provided information and proceeded with prosecution if it was necessary or appropriate.

We have to brag just a little bit. Our web site, Ropin' the Web, has been rated best Alberta government site for the third year in a row. Usage increased by 47 percent to 2.5 million visitors a year, and the thing that was interesting to me is how many of those visitors to that web site are from out of our country. So it's quite an amazing program.

We have seven performance measures. We exceeded five of the seven. The percentage of cash receipts: we exceeded our forecast there. We account for 24 percent of Canada's cash income. This is of course in agriculture. Food and beverage industry was measure 3. Of course, I mentioned that reaching the \$9.9 billion mark. The shipments of agriculture and food products to other countries, measure 4, exceeded \$6.1 billion. Agriculture's food and beverage industries constitute about 4 percent of Alberta's gross domestic product.

The results that were below target were in the average employment in agriculture and food. It dipped to 59,500 people. That's down about 14 percent. We would consider that due to economic conditions, further decreases in output in primary. However, probably what is important is that employment in the food and beverage industry, which is our value-added sector, continued to rise and is today at record levels. We do not want to be simply a shipper of a raw commodity to another place. We want to add value in Alberta, and I think you would agree that we've been fairly successful in growing that area. Crop production for 2001 was 20.6 percent below the five-year average. I don't think that will be any surprise to anyone because of the extremely dry conditions that we

experienced in much of the province.

I think I won't talk about the financial areas, the revenues and so on. You'll probably have questions on those, and we want to leave lots of time for that. I would just close by saying that we're going to continue to work with our industry through partnership and innovation, to move forward. We're excited about the recommendations that Agrivantage teams, which are entirely made up of industry, have put forward as challenges to meet our goals of \$20 billion in value added and \$10 billion in primary by 2010. I don't think it'll be difficult on the primary side; we're already at \$8.3 billion. With the challenges we've had with the drought in the last, well, up to four years in parts of our province but provincewide in the last year, we may be a wee bit behind, but I think we'll make a very good effort at making it. We're going to continue our very strong commitment to the environment and to maintaining the highest standards in food safety. Our department's challenge is to ensure that the industry has the support that it needs to overcome the challenges they face and, most of all, to take advantage of new opportunities that are there for us.

So I look forward to your questions, and, Mr. Chairman, if you'll bear with me not being as accustomed to the process, I'll try and answer them quickly, expeditiously, and with a lot of help from my very talented staff.

8:50

The Chair: Okay. Thank you, hon. minister.

Before we get to questions this morning, would the Auditor General have anything to say in regard to his annual report from 2001-2002?

Mr. Dunn: Thank you very much, Mr. Chairman. Our comments related to this ministry are contained on pages 37 to 44 of our 2002 annual report. In there, we've made one numbered and two unnumbered recommendations. Although unnumbered, the recommendation on page 39 concerning the development of a generic emergency program delivery system is important. We've heard about the significant impact that the drought had on our province. To avoid an ad hoc program delivery model, the ministry needs to develop a generic template – that's what we've called it – to follow in developing any new programs.

We have also followed up on our prior year's recommendation suggesting that the department perform annual performance evaluations of what is known as the farm income disaster program to assess the achievements of that program. Our follow-up indicated that this recommendation has been successfully implemented in the prior year.

Our comments also cover the entities that the minister briefly talked about that report to the ministry, including Agricultural Financial Services Corporation and the previous organization called Alberta Opportunity Company which is now wound up into AFSC, the Alberta Dairy Control Board – and those responsibilities were transferred to Alberta Milk, which is an industry-managed organization – and the crop reinsurance fund.

So, Mr. Chairman and committee members, those are my opening comments this morning. Jim Hug, who's with me, and I will answer any questions that the committee directs to our attention.

Thank you.

The Chair: Thank you very much.

Now let's proceed quickly to questioning. There's a long list this morning. Dr. Taft, could you start us this morning, please?

Dr. Taft: Sure. Wow. Okay. Well, I'll start with an obvious

question that stems from the Auditor General's written comments – it does crop up in other departments, but it's worth commenting on – on page 64 in his letter, Auditor's Report. It turns up again on page 86 under Auditor's Report. It has to do, of course, with the purchase of equipment under \$15,000 and the fact that it's treated as an expense rather than treated as an asset, which overstates expenses and presumably understates assets. This is a recurring theme, but I do note that with this department – I'm reading now on page 86, the last sentence – the Auditor General says:

The cumulative effect of the application of this policy over past years on the Department's capital asset and accumulated amortization balances cannot reasonably be determined but is believed to be significant.

And in the preceding sentence it looks like it was of some 1.7 million dollars' significance in that year alone.

So my first question would be to the minister or her staff. Why do you persist in this policy in light of the Auditor General's comments?

Mrs. McClellan: Well, I'd say, first, that we take all of the Auditor General's recommendations very seriously. We have always found that they were there to be helpful rather than critical. This is a standard government policy. It's something that must be addressed governmentwide, in my view, not simply by department. My understanding is that we are looking at that recommendation, working with the Auditor General's office to see how that could be implemented, and certainly when that occurs, Alberta Agriculture will be a part of the process. But we follow the standard government policy. The Auditor General may want to comment further on his work on the overall government policy.

Mr. Dunn: Do you wish me to . . .

Dr. Taft: Well, sure. I know this has come up before. Let me ask my supplemental, and then you can jump in. I don't remember – I could easily be wrong – but the \$1.7 million figure is a significant figure for last year alone, the year in question. I know the Auditor General reports that he cannot reasonably determine the total accumulated value of that number, but does anyone in the department have a sense of how many millions we're talking about and the size of the adjustment that will be required in the statements when this policy is changed, if it is changed?

Mrs. McClellan: Well, I couldn't give you that, but I can tell you, if you want to know, what it was for, which is probably more to the point of why we're here. We can discuss the overall government policy, and I know Mr. Dunn will. But last year, or in the year that we're talking about, we made a number of purchases in the food safety area, Dr. Kreplin's area – you would understand why – as well as some other areas. It is a significant amount of money, but I think that in the overall scope of the purchases maybe not as significant. I will tell you this: I don't think there's any doubt that we could account for every dollar in a way that would be satisfactory once we determine what that manner of reporting is going to be, but I'll leave that to the Auditor General.

Mr. Dunn: Okay. You're right; this has been brought up in many different ministries. As you're aware, when we dealt with the Ministry of Finance, we did raise that that's a policy which is to be addressed, and we understand it's to be addressed in the '04 year, that there will be the inclusion in the capital assets coming into our current fiscal year. So the financial statements of the province will include prior years' amounts that should be written off and will be

brought back in the capital assets together with, in the future, amounts exceeding a certain threshold. Although we haven't agreed yet exactly what that threshold is, it will be a threshold, we expect, of less than \$15,000 but above a small amount. So it's not administratively difficult to handle. Those capital assets will come out of current period expenses and go onto the balance sheet and will be amortized over their effective and useful life, and we fully expect that to be implemented throughout the province and throughout all ministries in the current, '03-04, year.

The Chair: Thank you.

Mr. Marz, followed by Ms Blakeman.

Mr. Marz: Good morning, Madam Minister.

Mrs. McClellan: Morning.

Mr. Marz: Before I ask my question, I'd just like to pass on some thanks from my constituents on the speed with which you and your staff responded to the drought of last year. It helped a lot. Although ad hoc programs have much to be desired, I believe that for those who have taken crop insurance and enrolled in that combined with FIDP, those are the programs that have seen the bulk of the benefit for them, not the acreage payment. But the acreage payment certainly was that extra little bit that topped them up to perhaps in some cases what meant survival for another year.

My question this morning pertains to the intensive livestock operations, and they're referenced on page 23 of the annual report. The Sustainable Management of the Livestock Industry in Alberta Committee, chaired by MLA Mr. Albert Klapstein, completed its report on April 30 of 2001. That happened to also be my birthday, and I have some mixed feelings about it because it seems in my case to be a gift that keeps on giving and giving, and I'm not sure that's a good thing. One of the first two applications that went in came from my constituency, and it's created a lot of divisions in the community.

This report recommended changes in the way that intensive livestock operations – I guess we call them confined feeding operations now, CFOs – are regulated in the province. Can you update us on what your ministry has done to implement the recommendations of the report? Have all the recommendations in the report been implemented today?

9:00

Mrs. McClellan: Sure. Well, thank you very much. First, thank you for your comments on the ad hoc program. Nobody likes ad hoc programs. Producers don't like them; governments don't like them. They're never right. But when you're dealing with something as severe as we were and looking at losing a huge majority of our breeding stock, it was obviously necessary to do something quickly. We're hoping that we'll be able to address the concerns of the Auditor General in two ways: one, we are looking at a template, but more importantly we will no longer be delivering ad hoc programs. We will conclude the negotiations on our safety nets, and that will be the vehicle. In fact, producers understand that very clearly this year, that they had better make use of the protection that's out there because that's what is there.

I think probably one of the most important things that we've done is the intensive livestock, or confined feeding, operation legislation. We've all been reminded through various incidents how important it is that we protect our water and soil and air, and we know in Alberta how important the industry is to us. So we put the legislation in effect immediately. It's probably one of the most

expedient pieces of work that's ever been done. To take a piece of work from legislation to implementation and have it operating in under nine months is quite incredible for as complex as this is, and a great deal of credit has to go to the NRCB and staff for their ability to manage that. It's not unusual for me to have draft regulations along with legislation; it's a practice that I try to carry out. But I think that having that ability to show all of our members in the House what the workings of this would be helped make it move along.

We did make a commitment when we implemented this on January 1, 2002, that within a year we would begin to review it and make sure that it was working the way it was intended for the industry and certainly for the Alberta public, so we're going to commence with that review this summer and get a lot of input and feedback from, I know, all quarters. It is tough. The Farmers' Advocate office would tell you that they get a number of calls and the NRCB would tell you that they get a lot of complaints, but the percentage of what are nuisance and the percentage of what are real is really quite amazing. It was the right thing to do. Do we have it exactly right yet? Well, if I thought we did, we probably wouldn't be doing the review this summer. I think we can improve it both for the efficiency of the industry and the protection of the air, water, and soil, which was the intention of it.

Mr. Marz: Perhaps you've answered my next question. I welcome hearing about the review, because not all stakeholders are happy, as you pointed out, and some claim that it favours the confined feeding operations, even those who have a history of abuse. So I think my constituents will welcome the review. What are you doing to communicate this review to the general public so they're all aware of it and can participate in that?

Mrs. McClellan: We're in the process now of developing what you might call a workbook, which will be a part of a consultation process. We will ask for responses from all. The difficulty is in perception. Quite often it's perception rather than reality. I live a mile upwind of a very, very large hog operation, so I can assure you that I understand people's concerns. But I also know from some 30 years of living with that operation expanding from a very small operation to a very large one that you can live side by side or upwind, if you wish, with new technology and new methods that are used as long as they're carried out by the operator. That's one of the challenges that I think we have in this, to ensure that the operators do carry out best management practices. All of the work that the NRCB deals with deals with science and the best science we have. I think Alberta Agriculture has a role to play with the industry in ensuring that they're aware of the latest technologies that are there to mitigate what are often just a nuisance factor in these.

We will be developing a workbook. We will have some consultation roundtables. We will review with the NRCB their recommendations to improve this and come back with a final report probably at the end of the year as to whether we have to change legislation or indeed regulations to make it work better.

Mr. Marz: Okay. Thank you.

The Chair: Thank you.

Ms Blakeman, followed by Alana DeLong.

Ms Blakeman: Well, thanks very much. Welcome to the minister and her staff and any fun seekers that have joined us today. That's my own little personal joke.

I'm following up on the unnumbered recommendation that

appears in the Auditor General's report, pages 39 and 40, around the generic emergency program delivery system and developing that. You have referred a bit to the number of ad hoc programs that the ministry has felt necessary to engage in in the last couple of years given the circumstances, and I do note with interest the attempts, starting in June of 2001, to develop some sort of generic template. You call it a charter template project. It seems to have stalled a bit, probably, I'm assuming, because resources and staff were pulled off of the project to work on the next ad hoc project.

Mrs. McClellan: Right.

Ms Blakeman: Now, the minister also mentioned earlier that there was an anticipation from the ministry that there would no longer be any ad hoc projects, so I'm wondering where we're at with this charter template. If you're going to continue to develop it, what's the plan to get it back on track? Conversely, I guess, if you're not going to and there will be no more ad hoc projects and therefore no need, then what is going to come in place of it? So that's my primary question.

Mrs. McClellan: Good question. You're right; there was very little progress on the development of the template from June of 2001 to about May 2002, and you're right that the reason was that we pulled staff.

You know, with the \$324 million that was delivered to producers last year to respond to the lowest precipitation record in 130 years, the first producer actually did have a cheque in his hand nine days after the program went out. In fact, I think we announced it at noon, and we had our first application, thanks to new technology, before 1 o'clock that day.

The one thing I do want to say – and this is a huge tribute to the people who work in that division in our department – is that that program cost us less than 1 percent to administer. Now, in speaking to a federal official, they were shocked. They said that 20 percent was sort of what they geared for. I know it wasn't perfect; I said that when we announced it. You do something like this in an emergency. It probably isn't ever going to be absolutely right, but it did achieve the purpose that it was set out to do, and that was to ensure that we did not lose all of our livestock in this province. Our figures would say that we went from about 54 million head of cattle to 52.3 million or something. So, you know, rather than losing 25, 30, or even up to 50 percent of the stock that we had, which is a huge part of our \$9.9 billion in value added, and losing a hundred years of developing herds, we did maintain that with an under 1 percent cost in administration. I think we should all applaud the people in Alberta Agriculture who worked double shifts up to 11 o'clock at night, worked weekends, and put their all into it.

We will continue this because as much as we say that we are developing through the ag policy framework the best set of safety nets, one, we're not there yet. We keep thinking we're almost there on NISA, which is the final piece. When NISA comes into place, FIDP will no longer exist, or CFIP, if you wish – and I hate acronyms – which is the federal farm income disaster program, or the Canada/Alberta farm income disaster program. The federal government has said that they will not participate, that this was their last year, and we will be going into a new program. So NISA will be the delivery, potentially, of disaster programming, and then the trick is to make sure that you have all commodities in it.

9:10

I don't think it's really well understood how diverse the agricultural industry is in this province and thus the complexity of it.

We all think of cattle and grain, hogs, chickens, the feather industry, the milk industry, or dairy industry if you wish, the beef, pork, and lamb industries, but we don't think of all the other commodities that are in that industry. To get them all in an insurance program – we insure some 40 crops under crop insurance. You know, most of us would be hard pressed to list those, even those of us who live this. So saying all of that, I think also, though, it goes down to the fact of why ad hoc programs are not a good thing: because you're trying to address a very broad, very diverse industry with a single response.

Now, you could do it the other way. You could do like some governments have done and take two years to study the issue. By then, you've lost 10 or 20 percent of your industry and it's probably cost you half the money you would have had to deliver, but maybe it would have worked fairer. I don't know. All I know is that producers came to us and said that we had about one week, at the outside 10 days. I visited probably five auction markets in that period of time and talked to producers, talked to people who were selling these cattle, and that's what they told us. I know the results, so however we write it, I know what we did made a difference and it helped, and it met the performance measure that we put in place as a government when we responded.

So short answer, Laurie: yes, we're going to continue to develop the template. We hope we never have to use it. Secondly, we'll continue to make sure that whenever money is allocated in agriculture, most of it goes to the industry, not to administration.

Ms Blakeman: I can't begin to describe the lack of my knowledge in this area, but I appreciate that the minister is a strong advocate and tries hard to explain how this works to other people. I'm aware of how quickly things had to move last year, and the minister was very clear on describing that. I'm just going to go back and probe a bit more for details on this. So there is a commitment to follow through on the charter template although there is a commitment also to move away from the ad hoc programs. What I'm trying to probe for is: how do we ensure that taxpayers receive value for money? Can you give some detail about what the plan is to get back on track for the charter template? What are the time lines that are in place or the resources that have been committed to make sure that this comes to fruition?

Mrs. McClellan: Well, Faye, the lady who really knows these things, tells me that the project has been resourced and it is this close – well, you can't see that in *Hansard*, can you? – very near to project completion. So back on track, very close, and hopefully ready for all of our viewing.

Hon. member, don't feel in any way inadequate in not understanding all of the complexities of these things, because they are complex just by the very, very complexity and diversity of the industry itself, but there is no misunderstanding, I think, in anybody's mind of the value of this industry to this province. It is the industry that the province was built on. It is a sustainable industry; it will be there for the future. We have shown that it can grow in a responsible manner. It's about an 18 and a half billion dollar industry in Alberta. We're the second largest agricultural producing province in Canada. We're the second largest exporting province in Canada, and I think that when you look at that and see that Alberta is between the Rockies and the Atlantic seaboard, we're not exactly well positioned for transportation. That's a challenge for us.

But look at this region. As I said in my opening comments, we have about a hundred companies right around the capital region that export food products, quality food products, to over a hundred

countries in the world. You think of the jobs, and, you know, if you just drive around some of the perimeter of the city, I think you'd be surprised. I've mentioned this in the House, the expansion of Saxby Foods, which are exporting their product now all across Canada, to five U.S. states, and probably into Asia as we speak. That was their plan for the new year. That's a very young company, and it's employing a lot of people. That's only one example. We all know Chimo. So that's my comment on charter, ad hoc.

Ms Blakeman: Okay.

The Chair: Thanks very much.

Ms DeLong, followed by Mr. Mason.

Ms DeLong: Thank you very much. If we could turn to page 21 of the AFSC annual report. On page 21, if you look down the column on year 2002 – I'll just wait a second. I'm in this booklet here.

Mrs. McClellan: Oh. The Ag Financial Services report. I don't have that one. Anyway, go ahead. It doesn't matter.

Ms DeLong: Okay. It's a high-level question eventually, but I'm just going to go into the detail first. I notice that we have contributions from the province of Alberta of \$138 million. You expected more from the federal government but only ended up with \$86 million from them. In terms of your revenues and expenses the bottom line was that even though that money went in there, it still ended up with a deficit of \$53 million, for a total deficit of \$278 million. Now, my question is: in the long term, like if you look out 10 years, is AFSC ever self-sustaining? I find this a little bit surprising to see such negative numbers when I understand that in terms of the loans that you give out, your collection on loans is a really good story. So why is it operating at such a loss?

Mrs. McClellan: Well, let me correct one thing: Ag Financial Services does not operate at a loss. Now, what you're looking at when you look at one year is a snapshot of its operation. I'm going to get Faye and Alan to comment on the very specifics, but I would say that often your federal contributions come in at different times as well. That could explain it. But Ag Financial Services does not operate at a loss either in its insurance programs – it may have to borrow to cover heavy years in those areas, but on its loans program it has a lending cap. It can only lend within that cap, and as you did indicate, their loss ratio is extremely good. Faye or Alan or Krish, whoever you wish, may want to . . . Alan, why don't you take a swing at that?

9:20

Mr. Steel: Thank you, Minister. Our crop insurance premiums are actuarially sound. They're set based on a 20-year running total, and premiums go up as losses go up. We have a one-year lag in our premium-setting process, so our premium rate increase for the 2002 loss won't take effect until 2004. You know, over a 20-year average our bottom line is zero. We're not in business to make any money. We're not in business to lose any money.

Ms DeLong: So does that zero take into consideration that you're being subsidized by the two levels of government?

Mr. Steel: It does, yeah. The federal and provincial governments will cover part of the cost of the premiums for producers and all of the administrative costs.

Mrs. McClellan: We don't consider it a subsidy, Alana. We consider it an investment.

Ms DeLong: But there's no way a private company could possibly compete with it then; is there? A private company wouldn't have that government funding moving into it.

Mr. Steel: Correct.

Mrs. McClellan: There is no insurance program for crop insurance in the world operated by the private sector that I am aware of. Now, on a single peril, like hail, you do find companies who offer insurance, but on a broad-based insurance program there is, as far as I know, nothing in the world. In fact, it's interesting that other countries have come here to adopt our program. We set up the crop insurance program in Chile just recently. We've worked with other provinces, in fact. Until about a year ago we handled all of British Columbia's crop insurance needs for them. Countries in eastern Europe have looked at our program as well.

Ms DeLong: So the \$278 million loss, if it's averaged over 10 years, doesn't show as a loss then?

Ms Rault: I think it's important to remember that crop insurance indemnities, the payments that were actually made to farmers because of the drought conditions in 2000-2001, were much higher than budgeted, but they're offset by contributions from reinsurance funds that have been set aside over a period of years. Accounting standards require that you disclose the revenues and the expenditures in the year in which they are incurred, but the program is designed to be actuarially sound. So what you see are the financial accounting reporting standards flowing through, but the program over its life is actually very sound.

Mrs. McClellan: If you looked at them further – and the Auditor General may want to comment on this; I don't know.

The Chair: Madam Minister, please be brief. That was four questions all tied into one, and there's a long list.

Mrs. McClellan: Well, it probably is one of the more complex operations to understand; there's no question. There are a number of funds that are held, so if you look at the Ag Financial Services total annual report, you will see a number of funds. Now, when you look at the next annual report, you will see those funds being very small because we've paid out huge indemnities this year. But there are funds for hail insurance and so on.

The other thing is that we very wisely reinsured our crop insurance program, and the private sector probably picked up about 14 percent of our indemnities. You should understand that when the losses become a certain level, the federal government picks up a higher degree of the risk. But the answer comes back to: you are looking at a very narrow snapshot, and if you don't look at the whole picture, it would appear that we operate at a loss. I just want to make it clear that they did not operate at a loss. They paid out a higher amount than was budgeted, and that will happen from time to time, but those are covered.

The Chair: Thank you.

Mr. Mason, followed, please, by Mr. Cenaiko.

Mr. Mason: Thank you very much, Mr. Chairman. Madam Minister, welcome. I'm referring to page 21 of the ministry report

under results analysis. It talks about animal health surveillance programs for transmissible spongiform encephalopathies, particularly chronic wasting disease in cervids, which I think is a word for elk and deer – right? – and also bovine spongiform encephalopathy in cattle, which is commonly known, is it not, as mad cow disease. Is that the nontechnical term for that?

Mrs. McClellan: Why don't you come up to the table, Dr. Kreplin. You may be needed.

Mr. Mason: I would like to know, since these diseases could have a devastating effect on our cattle industry, not to mention on the health of the public, what preventative programs the government has in place and how those programs are evaluated, how you measure the success of those programs.

Mrs. McClellan: I'm going to ask Dr. Kreplin to give you the very scientific answer, but to the best of my knowledge chronic wasting disease is not a disease of cattle. It is a disease of cervids, and it isn't transferred in that area. It is a huge disappointment to us to have found some CW in our herds, of course not to the extent as in some other areas, but we do have in that industry probably the best trace-out system there is anywhere. Every animal is clearly identifiable. When we do have an occurrence, we do test the heads of all slaughtered animals, and when there is an incidence found, you very quickly can trace where that animal came from and any animal that left that farm for another farm. So within probably hours, short days at least, of an incidence you have a complete trace-out, and then those animals are also checked out that have moved. So the containment side of it is I think very good, but I'll let Dr. Kreplin give you a much more scientific answer than I could.

Dr. Kreplin: Mr. Mason, chronic wasting disease and BSE, which you referred to as mad cow disease, which is the common terminology, are both caused by an agent called a prion. Prions are detectable most often through postmortem examination, but they are a relatively new infectious agent, and therefore preventative programs are not yet in place. They haven't yet been discovered. Our business is to ensure that we detect these diseases as soon as possible so that appropriate health measures, preventative measures, can be put in place as well.

Mr. Mason: My understanding is that the primary means of transmission of mad cow disease, for example – and I recognize that there are two distinct diseases. You know, I would hate to see what happened to our elk herds happen to the cattle industry in this province, so I think the stakes are huge. My understanding is that the primary means of transmission is through the use of the other animals, diseased animals being used in feed, and I'm wondering if the government has any plans to stop that practice.

Dr. Kreplin: As a matter of fact, that's already in place. I assumed when you were asking about preventative programs that you were asking about a vaccine program for cattle or for the elk that would be affected to prevent against chronic wasting disease. Other preventative programs are in place to prevent the feeding of ruminants to ruminants, and that's embedded in federal legislation. Again, I mention that our business is to detect as early as is possible and to respond in an effective way. Bovine spongiform encephalopathy was found in an imported animal on one farm in Alberta in the early '90s. It was depopulated, as were all the trace-out animals, as were all of the animals that were imported during that time period.

9:30

Mr. Mason: You mean slaughtered?

Dr. Kreplin: Slaughtered, yes. Actually, not even slaughtered. Slaughtered implies for human consumption. These animals were euthanized and disposed of so they could not enter the human food chain. The scientists are still investigating a direct linkage between human health and these diseases in animals, and that association has not concretely been made, but we're operating on the principle that if that association is made, we've got the appropriate programs in place.

We also are working with the federal government on other early response programs for foreign animal diseases like foot-and-mouth disease. We call that a foreign animal disease eradication support program. In conjunction with the federal government we have an Alberta response plan. We also are working at contingency plans within the government departments and within industry so that when a problem arises, we know who to call, when to call them, and who to involve to develop a control centre and so on.

Mr. Mason: Thank you.

The Chair: Thank you.

Mr. Cenaiko, followed by Dr. Taft.

Mr. Cenaiko: Thank you very much, Minister. Prior to the even more disastrous drought in 2002 the ministry experienced its worst drought in 130 years in 2001. On page 31 of the annual report it refers to the province's safety net programs. How did your department help farmers and ranchers in Alberta cope with drought conditions?

Mrs. McClellan: Well, we've had probably four years of fairly extreme drought in the northeast of the province and the south, maybe a bit worse in the southeast. For two of those years we responded with a program that would respond generically to high input costs and drought conditions. We've actually responded three years in a row, which might give rise to the reason that we are written up on ad hoc programs. It's unusual to do that, but the circumstances were unusual.

The first year of the three years is outside the time period we're talking about and was \$10.29 an acre. The Alberta government provided that totally on its own. The federal government did not contribute. They contributed to programs in Saskatchewan and Manitoba. We were offended by that, but the fact remains that that's the way it worked. The second year that we offered a similar program, \$10.29 per cultivated acre and \$4 for pasture, was again in response to further drought. The federal government did contribute to that one. You would see that in our accounts.

This last year, that we talked about already, we distributed \$324 million to producers, less 1 percent of that probably. We changed the program somewhat and provided less on the cultivated acreage side of \$7.15 because we were really trying to respond more on the feed side. No question. We changed the pasture side of it to a higher rate for tame pasture and a lower rate for native pasture. That was to recognize that tame pasture will outproduce, in bulk at least – there is some disagreement as to nutritional value – native pasture and also the expense attached to it. The consideration is that the production difference is about 2 and a half percent, hence \$4 an acre for native and \$10 for tame. That was fairly well received by the industry. In June of 2001 we implemented drought programs through the farm income assistance program. That was about \$59 million to 21,700 and some applicants at \$4 an acre for native

pasture, about \$900,000 to 260 honey producer applicants. This speaks to the complexity sometimes of these programs, but honey producers are as affected by drought as are greenhouse growers, as are the ones that we think about, being crop and animal production.

One of the most important programs that we've put in place, in my view, is the farm water program. That program was put in place with pretty stringent rules that it was to be for long-term water development. We have for the last maybe four years reduced our pumping rates by 50 percent to help people pump water. We traditionally have always paid for water hauling. Our new programs do not pay for water hauling except in exceptional circumstances, the reason being that we don't want to have an emergency every year. We want people to develop a long-term supply and better manage it. So unless it was an extraordinary circumstance, we did not pay for water hauling. If you haul water all summer, you end up at the end of the year with a tank, a worn-out truck, and you've used a lot of fuel and have nothing for the next year. I know we're always short of time in this committee, but I do want to just mention the ingenuity that we have seen from our producers in that program. It's probably one of the best programs we ever put in place. We've seen solar pumps, cleaning out springs, piping, shallow pipelines, lesser. But in hearing from the municipalities, they are extraordinarily pleased with that program.

We do have a Drought Management Committee in the province, and they have provided us with a lot of advice as to how to deliver these programs, or what to deliver. They leave the sort of how-to to us. Through their work we've increased the number of weather stations. The federal government gave us some funding for that. I think it's incredibly important that you have good data if you're going to try and measure your results. I think that in the year this account deals with, there were 34 weather monitoring stations. We almost doubled that over the next year, which will give us much better information.

We work very closely with the PFRA, the Prairie Farm Rehabilitation Administration. The last number of years PFRA has not been as involved in water development as they were in prior years, but much of the success of this province's water management is due to the excellent work that PFRA has done and the investment they've made. I know that I have been a strong advocate for that group with the federal minister, and I was extraordinarily pleased to see them increase their funding. They've been great for us in technical advice, engineering advice, and just generally working with us on the program whether they could contribute cash or not. The federal government is indicating that they'd like to participate with us this year on the water program that we have in our budget, which will leverage our dollars probably another two to two and a half times, which is good news for long-term water management.

Mr. Cenaiko: Thank you.

The Chair: Thank you.

Dr. Taft, followed by Mary Anne Jablonski.

9:40

Dr. Taft: Thanks, Mr. Chairman. I will just ask one question. It's a fairly large question, and I'd be interested in the Auditor General's responses as well as the minister's. The big picture is – well, as an MLA I've been involved now in a couple of votes on supplementary estimates in the fall which have to me been really large amounts of money. I'm going from memory here, but \$600 million or \$700 million last November tied to one form or another of emergency assistance for agriculture or forestry or whatever. Whatever we may

say about the causes, there's evidence of climate change. We are probably in a time when we're facing increased risk of extreme weather and drought and so on, and my questions really relate to planning for risk so that we don't face such large supplementary estimates in the fall. So that's the background here. There has been a fair bit of discussion on the various emergency support programs, working towards a template, and that kind of thing.

My questions, then, are these, and I'd like comments from both the AG and the minister. How will progress on ending these ad hoc programs affect budget overruns such as I'm looking at on page 88? Can I be assured as an MLA that that progress is going to help reduce the supplementary estimates by improving our planning ability for risk?

Mrs. McClellan: I'll answer this way. Our risk management programs, properly developed – and I believe that we're on the right track with the changes we've made this year to our crop insurance program. The anticipated changes, if you look at our business plan for next year, will address that, will take away the need for those ad hoc programs. Had we had our hay and pasture and silage program fully developed for last year, we probably would not have had to deal with \$324 million in acreage payments, had we had our crop insurance and those other programs in better shape.

Will you get away from supplementary estimates? I'm going to leave that to the good offices of the Auditor General, but we have a way of accounting that says that we anticipate budgeting so many dollars of expenditures for Ag Financial Services. Ag Financial Services is a Crown corporation. It does operate all of its operations fully, but they are included in our bottom line, and we have a statutory obligation through some 30,000 contracts that we have with our contract-holders, which are the producers of this province, that when there is a call, they will be paid. This is an extraordinary circumstance – I just have to go back and say that, hon. member – because two years ago I think we paid out some 280 million dollars or in that range, give or take \$7 million or \$8 million. That was a record in the 40 years of the program. This year we will pay way, way more than that. So those are very extraordinary circumstances. You wouldn't put in your budget a plan to pay out \$800 million in crop insurance, albeit that if you have the money in a fund, you budget what you anticipate the program is going to pay out. So you may have to come back for sups, but I'm going to let the Auditor General deal with how we show it.

Mr. Dunn: I'll try and look at this, Dr. Taft. Compared to the budget, the budget anticipated that there would be net operating results of \$464 million negative. [interjection] I'm on page 89 of the report. It did show that the net operating results should be \$464 million negative, so it did anticipate that a number of payouts would be in there. You'll see under the farm assistance program that it did anticipate almost \$284 million. The difference between what was budgeted and what was actual was really another \$70 million, and this is where you come into your supplementals. Of course, if you look at what drove that change, you have to go back up to, on page 88, the farm income assistance program, where with a budget of \$284 million the actual came in at \$404 million. The prior year was \$239.5 million.

So first you look at: was the budget reasonable? Based upon the prior year comparison, the budget seemed to have been reasonable. It's the extraordinary circumstances that come in. We have to account for those extraordinary circumstances, and you must account for them in the year in which they occur. So the department accounted for it right. The question becomes, back to your point: will you avoid the supplementals? I don't believe you will.

Dr. Taft: I don't expect us to avoid them, but I sure would like us to plan better so that they're a lot smaller.

Mrs. McClellan: Well, you know, I'll go back – I mean, we have to concede this point. Two years ago we paid out the record in 40 years of the program, so it is very, very extraordinary.

Dr. Taft: Oh, yeah. You know, I understand and I sympathize with that, but I think I will end with this comment. I suspect that we are entering an age, an era, when risks from extreme weather are increasing, and I hope that our risk planning accounts for that.

Mrs. McClellan: Well, as I said, we have a risk management plan under the ag policy framework which, if we could just conclude the negotiations and get it completed, will probably minimize the need for that. We have the changes to crop insurance. If we ever come to a conclusion on NISA – I get very excited about this, think we're almost there, and then we have another bullet come into it that says: no, this isn't going to work. But we've bought more reinsurance, which I think is a responsible way to manage risk. You can plan for what your premium is there, and you do know what they will cover. If we can do that, we will achieve minimizing the opportunity.

You've heard me say in the House a number of times that my goal was to put a permanent water management program into our department so that we could manage this on an annual basis and make sure we had good, sound programs there that would ensure good long-term supplies. I think we've done what we can. I go back to the Drought Management Committee we have, that is made up of municipal leaders and people from the industry from across the province, and it's their good advice that has led us to this. Interestingly enough, that Drought Management Committee was put in place probably a year before the most severe circumstances. I won't get into the debate on climate change and talk about what the Vikings experienced at this table.

The Chair: Okay. Thank you very much, and I appreciate that.

Mrs. McClellan: Yeah, I bet you do. That's for another time.

Mrs. Jablonski: It's really good to have you here this morning. I'm learning lots just by listening to you, Minister. Although I grew up on a small vegetable and fruit farm in Ontario, I don't really know much about agriculture, but I do know that if you eat, you're involved in agriculture, so I'm very involved. I am also involved in business, and one institution that I appreciated very much was the Alberta Opportunity Company. On page 141 of your annual report, note 15 reports that

based on the Agriculture Financial Services Amendment Act, 2002, effective April 1, 2002, the Alberta Opportunity Fund Act was repealed and the operations, assets, liabilities, rights and obligations of the Company were transferred at book value to the Agriculture Financial Services Corporation.

My question is about this transfer. I'd like to know if this transfer has been completed successfully and what efficiencies we created. By this I mean: did we save money, or do we give better service to all Albertans?

Mrs. McClellan: Good questions. I'll ask Alan to comment. This is his operation.

The transfer has been completed I think very smoothly. Our goal was to not have any business interruption or leave any area of uncertainty to the clients, whether it was Ag Financial Services' commercial division or Alberta Opportunity customers. It seems to be working very well. I can tell you that as an MLA – this is the barometer I use – I am not getting a lot of calls of concern. In fact,

I'm getting less calls on how to contact them. Maybe having one entity has cleared up the "where do I go?" question. The whole goal in doing this wasn't about money, although obviously there are some efficiencies in overlap of staff, in human resources. But as far as field staff, Alberta Opportunity Company I believe had more offices than Ag Financial Services. Or less?

9:50

Mr. Steel: They had 10.

Mrs. McClellan: They had 10. That's right. It was the other way around. We had 50.

So it has probably provided an opportunity for more people to access or know about AOC. It really was about better service and being there for people in as many areas of the province as we can. AOC and Ag Financial Services do not just lend in rural communities. You will find many projects in this very capital region where they may be involved as a lender, particularly in processing. So it was important. But Alan might want to just give you a quick note on how it's working now.

Mr. Steel: Thank you, Minister. Yes, the merger has been successfully completed. It's gone very smoothly. We've merged the boards of the two organizations as well as the staff. AOC is a lender of last resort, and we are continuing with that mandate. Producers and Albertans can now access loans at the majority of AFSC's offices throughout the province. The annual savings to the province and to the government are about \$1.3 million a year, so there are substantial savings. The number of loans has actually increased since the merger, so we are getting out there. We have a very strong communications policy. We advertise continually. We send our people out to communities where we don't have offices and set up shop. We visit the banks to let them know that, you know, we're looking for business. If the banks can't offer an individual a loan, then we ask them to forward the information to us and send the person along. So it has been very successful.

Mrs. Jablonski: Thank you. I know that the programs that were available for Alberta entrepreneurs were very beneficial, and I know that they helped many businesses to succeed. My last question – and I think you've answered me, but I just want to make sure – is if these benefits and programs are still available for all Alberta entrepreneurs, ranchers, farmers, and businessmen.

Mr. Steel: Most definitely they are.

Mrs. Jablonski: Thank you.

The Chair: Ms Blakeman, followed by, time permitting, Mr. Cao.

Ms Blakeman: Thanks very much. I'm looking through the ministry goals, available in the annual report between pages 20 and something, wherever it ends, and there are no quantifiable targets with anything. We have things like "reduction in barriers that limit market access and competitiveness" and "Alberta's market share for priority products in priority markets." There's nothing that says: "will increase by 10 percent" or "will hold the line." There are no targets to go with it. What I'm leading up to is a discussion around recommendation 5 that appears on page 41 of the Auditor General's report. In there he points out that the ministry has developed and has talked about – I've heard the minister talk about them, and she talked about them today – these two targets for the agricultural industry, the

\$10 billion in farm cash receipts by 2010 and the \$20 billion in value added by 2010, but in fact those targets do not actually appear when you try and find them in the measurable performance measurements.

I know and I can quote here that the ministry has indicated that indicators will be reported in future annual reports, but they will not have targets attached to them nor will they be subject to audit. This doesn't make sense to me. How is any Albertan expected to be able to look at what's happened, aside from the extraordinary amount of activity, which nobody is debating here? For example, the measure "Production index for priority products." What is that? How are we measuring against it? There are no targets that are set in any of the ministry's performance measurements that say, "This is what we're trying to achieve," which would allow anyone, including management I presume, in the department to look at it and go, "We got there" or "We got 25 percent of the way there" or "We didn't get anywhere close" or "We exceeded it." There's nothing quantifiable in any of the performance measurements, so why has this choice been made? How do we know that there is value for money or that risks have been minimized when we have no way of actually measuring?

I think that'll be my only question.

Mrs. McClellan: I'd like to continue this discussion when we have our estimates because there's no way in four or five minutes that we will be able to conclude the discussion. But I do want to say this: it's the industry that performs here, not the Alberta government or the Department of Agriculture, Food and Rural Development, and all of what we develop in our department is a support to industry achieving their goals and their opportunities and their targets. You can base it on performance, and I indicated that in some of my opening comments. We have seven performance measures. We exceeded them in five. We were less in two. One of them was, of course, drought related. But it's the opportunity for the industry to grow in a safe and responsible manner and continue to contribute to the Alberta economy. The industry is growing, but it's their growth, not ours. The changes in our department – when I mentioned that industry development was our last reorganization, our department has very much changed to be a support to the industry to achieve their targets and their opportunities.

One of the reasons that you've been tremendously successful in this province in value added and diversification of the agriculture industry is the very people who are in it, and we're there to support them. They're entrepreneurial; they're aggressive. I have been asked in other countries how Alberta, a small province, landlocked, not a hundred years old yet, has passed other provinces who have had a longer period of development. My answer is this. Albertans don't say: we can't do something. They say: how can we? They are that type of people in this industry, and they're very aggressive. So our goal is to be there to support them and to remove unnecessary barriers to growth, and I emphasize unnecessary barriers. So it's maybe a bit more difficult to measure some of it, but if the industry sets goals, we're there to support them. I'd like to talk about this a little bit more when we have our estimates, if we could.

The Chair: Okay. Thank you very much, Madam Minister.

Ms Blakeman: I will take my supplementary then. Sorry.

The Chair: We only have so much time.

Ms Blakeman: I know, but I get a supplementary.

The Chair: No. We're getting close to 10, and we were late getting

started today.

Mrs. McClellan: It's next week. No. The week after, Laurie.

The Chair: If you could provide any additional information in regard to Ms Blakeman's first question in writing through the clerk, we would be very grateful.

Mrs. McClellan: Sure.

The Chair: At this time on behalf of the committee I would like to thank the minister and her staff for coming this morning and of course the Auditor General and Mr. Hug as well.

At this time I would also remind members that next Wednesday, April 30, we're meeting with the Hon. Clint Dunford, Minister of Human Resources and Employment.

If there are no other items to be raised on the agenda this morning,

I would now please call for adjournment. Mr. Hutton, thank you very much.

See you next Wednesday.

Mrs. McClellan: Thank you, Mr. Chairman, on behalf of my staff for the quality questions, and we'll look forward to continuing.

[The committee adjourned at 10 a.m.]