



Legislative Assembly of Alberta

The 28th Legislature
First Session

Standing Committee
on
Public Accounts

Agriculture and Rural Development

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First Session**

Standing Committee on Public Accounts

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Standing Committee on Public Accounts

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Brad Klak, President and Managing Director, Agriculture Financial Services Corporation

John Knapp, Deputy Minister

8:30 a.m.

Wednesday, May 29, 2013

[Mr. Saskiw in the chair]

The Acting Chair: Well, good morning, everyone. I'd like to call this meeting of the Standing Committee on Public Accounts to order. My name is Shayne Saskiw. I'm the MLA for Lac La Biche-St. Paul-Two Hills, and I'm here substituting for the chair, Mr. Rob Anderson. I'd like to welcome everyone in attendance.

We'll start by going around the table to introduce ourselves, starting on my right with the deputy chair. Please indicate if you are sitting in on the committee as a substitute for another member.

Mr. Dorward: David Dorward, MLA for Edmonton-Gold Bar.

Mr. Allen: Mike Allen, MLA, Fort McMurray-Wood Buffalo.

Mr. Amery: Moe Amery, Calgary-East.

Mr. Goudreau: Hector Goudreau, Dunvegan-Central Peace-Notley. Good morning.

Mr. Bilous: Good morning. Deron Bilous, MLA, Edmonton-Beverly-Clareview.

Mr. Jeneroux: Matt Jeneroux, MLA, Edmonton-South West.

Mr. Khan: Stephen Khan, MLA, St. Albert.

Mr. Hehr: Kent Hehr, MLA, Calgary-Buffalo.

Mrs. Halldorson: Anne Halldorson, Alberta Agriculture.

Mr. Knapp: John Knapp, Alberta Agriculture.

Mr. Klak: Brad Klak, Agriculture Financial Services Corporation.

Mr. Kay: Darryl Kay, Agriculture Financial Services Corporation.

Mr. Driesen: Rob Driesen, Assistant Auditor General.

Mr. Saher: Merwan Saher, Auditor General.

Mr. Donovan: Ian Donovan, Little Bow.

Mr. Hale: Jason Hale, Strathmore-Brooks.

Mr. Stier: Pat Stier, Livingstone-Macleod.

Mr. Anglin: Joe Anglin, Rimbey-Rocky Mountain House-Sundre.

Mrs. Sarich: Good morning. Janice Sarich, MLA, Edmonton-Decore.

Mr. Quadri: Sohail Quadri, Edmonton-Mill Woods.

Dr. Massolin: Good morning. Philip Massolin, manager of research services.

Mr. Tyrell: Chris Tyrell, committee clerk.

The Acting Chair: Is there anyone else on the teleconference besides Kent and Bridget?

Bridget, if you want to introduce yourself.

Ms Pastoor: Hi. Bridget Pastoor, Lethbridge-East.

The Acting Chair: Okay. Thank you, Bridget.

Just before we begin, some housekeeping stuff. The microphones are operated by *Alberta Hansard*. Audio of committee

proceedings is streamed live on the Internet and recorded by *Alberta Hansard*. Audio access and meeting transcripts are obtained via the Legislative Assembly website. If everyone could make sure to speak directly towards the microphones and not lean back in your chairs while speaking, that would be great. Please do your best to keep your cellphones away from the microphones and on silent or vibrate.

At this point you have the agenda before you. If someone could move that the agenda for the May 29, 2013, Standing Committee on Public Accounts meeting be approved as distributed. Moved by Mr. Goudreau. All those in favour? Opposed? Carried.

We have two sets of minutes to approve this week. The first one is the minutes for May 8. Could I have someone move that the minutes for the May 8, 2013, Standing Committee on Public Accounts meeting be approved as distributed? Mr. Allen so moves. All those in favour? Opposed? Carried.

Next up is the May 15 meeting minutes. Could I have someone move that the minutes for the May 15, 2013, Standing Committee on Public Accounts be approved as distributed?

Mr. Quadri: I think on May 15 my name is missing.

The Acting Chair: Okay. That's noted, so it'll be amended.

Mr. Amery moves that the minutes for the May 15, 2013, Standing Committee on Public Accounts meeting be approved as amended. All those in favour? Opposed? Those on teleconference, if you want to speak up, are you in favour or opposed?

Ms Pastoor: In favour.

The Acting Chair: Carried.

The reports to be reviewed, just very briefly, are the Alberta Agriculture and Rural Development annual report 2011-2012; reports of the Auditor General of Alberta, July and October 2012 and February 2013; the 2011-2012 annual report for the government of Alberta: the consolidated financial statements of the government of Alberta, annual report 2011-2012, and Measuring Up progress report on the government of Alberta strategic plan, annual report 2011-2012.

Members should all have a copy of the briefing document prepared by the committee research services.

Joining us today are the representatives from Alberta Agriculture and Rural Development, including the deputy minister, Mr. John Knapp. I'd like to now invite you to make a brief opening statement of not more than 10 minutes on behalf of your ministry.

Mr. Knapp: Thank you, Mr. Chair and members. Good morning. I'm pleased to be here today to discuss the annual report for Alberta Agriculture and Rural Development for 2011-12. I'd like to begin by introducing some of the people joining me today. From Agriculture and Rural Development: Jo-Ann Hall – Jo-Ann, if you could just wave so folks can see who you are – assistant deputy minister, industry and rural development; Dave Burdek, assistant deputy minister of our policy and environment area; Anne Halldorson, beside me here, our senior financial officer; Jodi Stevenson, my EA; and Katrina Bluetchen, our director of communications. With the Agriculture Financial Services Corporation are Brad Klak, the president and managing director; Merle Jacobson, the chief operating officer; and Darryl Kay, the chief financial officer. Then also with us from the Alberta Livestock and Meat Agency is the president and CEO, Gordon Cove.

I might add, Mr. Chair, that the team you see in front of you is one of the most harmonious working teams in government.

There's a great deal of trust amongst this team and, as a result, a great deal of outward focus on the industry and on its needs.

Alberta's agriculture sector is the largest renewable industry in the province, a robust economic driver employing 73,000 people. Our annual report shows that the 2011-12 exports of primary and processed agriculture and food products total approximately \$8 billion, a number that has since grown by 15 per cent to \$9.2 billion today and continues to show strong upward growth trends. The top five Alberta agrifood exports continue to be wheat, canola seed, beef, crude canola oil, and live cattle. So if you take the two livestock and the two canola ones together, clearly wheat, canola, and beef are the big three in terms of our exports.

The demand for Alberta's diverse agricultural products will continue to increase as the world's population continues to grow. It has just surpassed 7 billion people. In approximately 37 years the projections are an additional 2 billion people. We are informed by the United Nations research that within perhaps a decade, as a result of changing climate, geopolitical disturbances, transportation disruptions, and other factors, it is quite likely that only six of the globe's 196 nations will be net food exporters. Included in those six are Canada, and within Canada the powerhouses in terms of expanding food production are clearly Saskatchewan and Alberta. So it puts us in a very good place, indeed, in terms of the rising global food security issue on the agenda of the world's nations.

Now, many countries as a result of that do not have the capacity to feed their growing population, and an expanding middle class, especially in Asia, is fuelling an increased demand for high-quality foods like Alberta's meat products, for example. There are tremendous opportunities for Alberta as we continue to position ourselves as a preferred and reliable supplier of food.

From primary production to applied research to diversifying the value chain, we are taking a comprehensive approach to encouraging and supporting the agriculture and agrifood industry. In '11-12 Agriculture and Rural Development celebrated many accomplishments as we focused on building a competitive and sustainable agriculture sector and strong rural communities. Our advocacy efforts in partnership with the federal government resulted in an end to the Canadian Wheat Board's monopoly. Marketing freedom day was celebrated last August in Kindersley, Saskatchewan, and looking around the table, I note that there are some members present who were at that very fine day last year, a banner day.

Now western Canadian wheat and barley producers have the right to freely market their grain products however and to whom-ever they choose, which we believe will significantly improve the value-added processing of grain right here on the prairies and right here in Alberta. Producers are embracing the change, which allows them to take advantage of the competitive marketplace and maximize returns.

The year 2011-12 was also important because several markets reopened for Canadian beef. After an eight-year ban producers were able to begin exporting beef from cattle younger than 30 months to South Korea, the last major Asian market to remove its ban on Canadian beef.

8:40

In March 2011 China also announced that it would provide immediate access to Canadian beef tallow to its market for the first time in nearly a decade. That may not sound like a big deal – tallow essentially is beef fat – but it has so many commercial, cosmetic, and industrial uses that it actually was a very significant event for us.

We also continued to explore opportunities for new markets for our products with excellent results. Other markets that opened at varying levels to beef in 2011-12 included Azerbaijan, the Philippines, the United Arab Emirates, and Vietnam.

We know, as our farmers and ranchers do, that agriculture can be a challenging business to be in. That is why the Agriculture Financial Services Corporation offers some of the most comprehensive lending and insurance programs in the country for both crops and livestock. AFSC noted in its annual report for 2011-12 that in the previous five years AgriStability and AgriRecovery provided \$943 million in compensation for losses suffered by Alberta producers. Between 2005 and 2012 the AFSC's lending activity generated almost \$4 billion of economic activity in the province, almost all of it in rural Alberta, contributing significantly to the development and growth of our rural economy.

In mid-2011, at the request of hog producers, AFSC also introduced, in addition to its cattle price insurance program, a new hog price insurance program to help producers manage volatile market prices. We believe the program is a viable risk management tool that will be there to support producers when they need it.

Another important agency that supports producers to succeed is ALMA, the Alberta Livestock and Meat Agency. ALMA acts as a catalyst in the development of a profitable and internationally competitive livestock and meat sector by supporting market development and encouraging research and innovation. By 2011-12 ALMA had provided more than \$109 million for projects that enhance and support our livestock industry with a total projected value of \$374 million. If you see the corresponding figures for the last year, you'll notice that the leveraging and the additional funding is now almost half a billion dollars. This is a return of nearly three and a half times the investment.

Research has also continued to be a key component in building a competitive agriculture industry. We hear this over and over again from the community when we're out there talking to them. Research and extension, they say, are the two most vital things we can do in addition to farm income support programs and insurance programs to help them with their future.

We supported the Crop Industry Development Fund with \$12 million for crop-related research, including integrated pest management, pest surveillance, varietal research, and agronomy. We also officially opened the \$17 million greenhouse research and production complex in Brooks, Alberta, and that will help ensure our crop industry is amongst the most competitive and progressive in the world.

Working with Service Alberta, on January 16, 2012, we introduced the final-mile rural connectivity initiative to bring high-speed Internet access to unserved areas of rural Alberta. As part of that initiative we unveiled the final-mile rural community program, that set aside \$5 million to help local governments in enhancing Internet access. We are currently in the process of finalizing those grant agreements for 23 approved projects with rural communities, First Nations, Métis settlements, and local governments across rural Alberta.

Our commitment to enhanced Internet access is just one example of our support for rural communities and rural development. In February 2012 an additional \$2 million was provided to support Alberta's agriculture societies, leadership development activities for the next generation of producers, farm safety programs, and ongoing initiatives within their communities.

Mr. Chair, that concludes my brief overview of some of the highlights of 2011-12, the fiscal year, and the annual report. We would be pleased to answer any questions you may have.

The Acting Chair: Thank you, Mr. Knapp. You're just within the time limit. We appreciate that.

Mr. Quest, if you want to just introduce yourself.

Mr. Quest: Good morning, everybody. Dave Quest, MLA, Strathcona-Sherwood Park.

The Acting Chair: Great.

I would now like to invite Mr. Saher, our Auditor General, to make an opening statement on behalf of the office of the Auditor General.

Mr. Saher: Thank you, Mr. Chairman. We issued unqualified auditor reports on the financial statements of the ministry, the department, Agriculture Financial Services Corporation, and the Alberta Livestock and Meat Agency for the year ended March 31, 2012. Also, we reviewed certain performance measures in the ministry's annual report.

At this time we are completing audits of those organizations for the current year, ended March 31, 2013. I'd like to draw the committee's attention to one outstanding recommendation on page 160 of our October 2012 report. The recommendation was made to the department in October 2012. The subject matter is enterprise risk management.

Thank you, Mr. Chairman.

The Acting Chair: Thank you, Mr. Saher.

With that, I'd like to invite government members to begin their questioning. We'll begin first with Mr. Mike Allen.

Mr. Allen: Thank you, Mr. Chair. Good morning, gentlemen. It's not often that you'll see me visit your office. Agriculture is not one of those departments that is of significant interest in Fort McMurray-Wood Buffalo. I think at last count we had three horses and six chickens.

Mr. Goudreau: And some buffalo.

Mr. Allen: And some buffalo, yeah. Not commercially, though.

I'd like to delve a little bit into the lending portfolio with AFSC. My understanding is that part of the mandate is to offer flexible loans with long-term fixed-rate interest rates that are there to assist both farms and agribusinesses but also commercial enterprises that typically couldn't obtain loans from traditional sources. When we look at some of this, I'm just curious. The commercial loans side itself, or the commercial loan program and value-added and agribusiness program: can all types of businesses borrow under that program, or does it specifically have to be an agricultural business?

Mr. Klak: Pretty much all types of businesses. The way that AFSC was brought together was a combination of the Alberta Opportunity Company, the Ag Development Corporation, and the Alberta Hail and Crop Insurance Corporation. When those mandates were all combined in our legislation, the only thing we're precluded from participating in is primary oil and gas, residential mortgages, and we can't lend money to other lenders. But other than that, we pretty much have an open mandate.

We have defined and our board of directors has defined our mandate as being specific towards the rural economy and very focused on the agriculture economy. The vast majority of our commercial lending is in those areas, and it's outside of the major centres. It's in smaller, rural communities.

Mr. Allen: The program itself: how does that match up against other types of, I guess, mostly federal government-supported,

business loan programs such as the BDC or Community Futures? Is it a similar type of mandate?

Mr. Klak: I would say it is. We work closely with those organizations in partnership with groups like the BDC and FCC, Farm Credit Canada. We do a lot of partnership lending. We have a strong appetite, probably as strong if not stronger, and a risk appetite for lending in those communities. I think we have a consistent risk appetite whereas you've seen some volatility with regard to the regular commercial institutions and their interest in the agricultural economy. Because of the focus from our shareholder, our desire is to take on risk, and if you look at our results, I think the rural communities as well as the agricultural communities have been very responsible in repaying their debts as well.

Mr. Allen: Okay. When we look at your loans receivables as of the end of 2012, I honestly don't know what a standard or normal allowance would be, but your overall bad debt allowance is about 2 per cent of the total portfolio. However, the commercial side of that is the significant portion. It's about 5 per cent of the total commercial loan portfolio whereas the farm side is only about 1.2 per cent. Is there anything specifically that you're doing to try to help mitigate the risk of that?

Mr. Klak: There are a couple of parts to that question. One of them, you'll see, is the difference between what we put for specific and general loan loss provisions and then our actual results. For the year that we're talking about, our loan loss provision was, I think, a \$34 million allowance that we put against doubtful accounts. That was a hypothetical number that we work out. It's actually a formula that we work with the Auditor General on in terms of being able to be responsible about what, you know, potential expectations are for losses. We also take a very conservative approach towards those losses.

8:50

The reality is that our writeoffs in 2011-12 were .22 per cent of our total loan portfolio, so that was, as you mentioned, around 2.1 per cent. Our primary agriculture portfolio is about 80 to 85 per cent of our entire portfolio. The smaller portion is the commercial side. It's where we want to grow. But, quite honestly, we're lending against business plans. We're not lending against the same security values as we are to agriculture, and that's the area that we know the best. We want to take higher risk on the value-added side. But, honestly, when you look at our loan losses on the farm side, they're very, very small because they're secured by land, and land has been an excellent investment over a long period of time. So they are a little bit higher on the commercial side.

If we compare them – your question was around comparison – Farm Credit Canada, which is an order of magnitude larger than AFSC: their reported writeoffs are .18 per cent for their loan losses and 2.76 per cent on the same side, on the commercial side. We're probably a little bit higher, but it also exemplifies the type of risk that we're taking on in those areas.

Mr. Allen: Great. Thank you very much.

The Acting Chair: Next up we have Mr. Quest.

Mr. Quest: Well, good morning, and thanks for being with us this morning. I just want to talk about BSE for a few minutes. This year marked the 10th anniversary of the discovery of the first Alberta cow with BSE, and we know what that did to our industry. It just decimated it for years as the borders closed around the

world to Canadian and Alberta beef. On page 3 in the minister's opening message he talks about countries like South Korea and China taking steps to enhance market access to Canadian beef finally, but it's been many years. I'm just wondering if we could maybe get some comments on why it took so long to work our way back into these international beef markets.

Mr. Knapp: Thank you, Mr. Chair. BSE was announced on May 20, 2003. It's a day I'll always remember because I was right at the centre of the programs that we responded to the industry with. I think your question, member, is: why has it taken so long to open some borders? In fact, it didn't take long for most borders to open. You've seen a lot of news in the last two years about some of the Asian markets, which had communities that were distrustful of how their own governments handled BSE. Japan, for example, was very distrustful, the citizens of Japan, of its own government's handling and lack of transparency around BSE. In Korea there was a very strong farm lobby which was using BSE as a way to support domestic farm prices.

Overall the U.S. opened within months to younger cattle. It opened to older cattle within a couple of years, and we began to see, thanks to the collaborative efforts of both the federal and provincial governments, a very steady cascade of reopening of about 44 significant markets – there were other markets that opened that didn't mean much – to a combination of young beef, beef from animals over 30 months, so essentially beef from more mature animals, and beef products, including bone-in and boneless and products like tallow. Again, some of those by-products which opened more recently, especially in Asia, have been products that have been significant sort of gravy to the industry because they weren't as valuable when they were landlocked domestically.

What has been absolutely key behind this is Canada's record and Alberta's record in terms of BSE surveillance. We are required to do a minimum number of samples – nationwide it's about 30,000 samples a year – and the OIE, which is the world animal health organization, will look at that and determine whether our status is negligible, controlled, or unknown. If you get into the unknown or uncontrolled category, immediately borders will close again. The very hard work in our level 3 laboratory right here in Edmonton is leading the nation in the number of samples we're finding. That, in fact, was the laboratory where we first found BSE, so it's maybe fitting that we should be providing the most samples.

In any case, it was a long piece of hard work with the partnership of both governments to get those borders reopened.

Mr. Quest: Okay. Thank you for that. That gravy reference: that was very good, by the way.

The Alberta Livestock and Meat Agency, ALMA, was another legacy from the BSE crisis. I know it was created with the vision of helping to strengthen our industry over the long term. Now, in 2011-12 ALMA provided about \$30 million in grants, so a pretty significant amount of money. It's just referenced on page 17. Maybe you can tell us a little bit about what we got for our money and specifically how that related to BSE.

Mr. Knapp: ALMA provides two major types of grants. One is for research. For example, ALMA supported some of the prion research into misfolded proteins that cause things like BSE and chronic wasting disease and scrapie. There have been some significant developments through the Prion Research Institute with funding provided by ALMA on the research side.

In addition, ALMA helped fund Gentec, the genomic centre which is now world leading at the University of Alberta. It is not

only mapping the genome; it's determining those commercial characteristics of the genome that will help us have a more efficient cow herd. We know, for example, that some cows in our herd will winter and produce the same weight of calf and lactate well on 25 per cent less hay for a similar body weight than other cows, so they have an enormous metabolic efficiency advantage over other cows. We're able to now pinpoint those through work that Dr. John Basarab, one of our staff, is doing with Gentec. What that means to our producers is that the most significant part of their feed costs, which is hay, may be able to be reduced by 25 per cent as we identify these more efficient animals. It's a huge impact on both knowledge of science and on-the-farm production costs.

On the other side of the equation, ALMA funds a number of projects that help the industry promote and develop itself. ALMA, for example, does a great job of supporting Alberta Pork in promoting its pork products and Alberta Beef. In fact, when those promotions are put forward, we often see increases in sales of 500 per cent in either beef or pork products during the promotional week as a result of those efforts.

I think, in sum, ALMA is helping the industry directly on the ground, but it's also helping the science side and the cost control side on the farm.

Mr. Quest: Thank you very much.

The Acting Chair: Thank you.

Next up we have Ms Bridget Pastoor on teleconference.

Ms Pastoor: Thank you. Can you hear me?

The Acting Chair: Yes, we can.

Ms Pastoor: Okay. Good morning, everyone. I want to talk about the rural Alberta development fund on page 40 of the '11-12 annual report. It's certainly been a successful tool, at least to my understanding. On page 40 it's noted that the \$100 million fund has been fully committed to 85 projects. If I could get a little bit of detail on the breakdown of the projects, but in my mind, more importantly, is there any conversation or appetite for renewing this fund?

Mr. Knapp: Perhaps, Mr. Chair, I could answer both parts of that question. First of all, the member has absolutely identified the value of the rural Alberta development fund. That \$100 million supported projects right across Alberta. Some of those projects helped rural communities who were struggling to determine what their future could be or would be with the capacity to address that issue, so it helped them with just basic capacity issues. In many other cases it helped with very novel community ideas: the baseball academy in southern Alberta; the peloton, which is like the Tour de France, that we're going to experience across many Alberta communities this September. Just some excellent novel, economy-building, rural-building ideas.

In terms of rebuilding the fund, clearly that's a decision that would have to be made through the budget process. There has been discussion intermittently with the existing board. I'm not in a position to, you know, indicate because obviously that's a budget decision as to whether the fund would be renewed or rebuilt, but I certainly hear the member's statement in terms of the value of the fund.

Ms Pastoor: Thank you for that. I'm glad to hear that at least there's some level of conversation about it.

Just one more, if I might, a supplemental, and again it's about funding. There's a federal fund for capital expenditures which is called the building Canada fund. There's a matching provincial component on that. Are you aware of the dollar amounts that might be available for that fund and in that fund?

Mr. Knapp: The building Canada fund is one of a great number of federal funds that we tap into, the biggest one, of course, being the Growing Forward fund, which will provide \$408 million over this year and the succeeding four years in a federal-provincial agreement.

I'm not specifically aware of the dollar values under the building Canada fund. It is not one that normally is used from an agriculture or food processing perspective, but at the member's prompting we certainly will check into that and perhaps close with the member on the dollar values and the capacity that the fund contains.

9:00

Ms Pastoor: Thank you very much for that.

Am I correct in understanding that it's never been used for agricultural capital expenditures, and is there a reason that it can't be?

Mr. Knapp: That's a very good question, Member. Again, we will determine what it can be used for. Our team is always interested in working with funders in other sectors, and we've been very successful in combining western development funding, federal funding that's infrastructure based but not necessarily agriculture based, and other provincial funds that may or may not work with agriculture. So if this fund has potential use, we will definitely have a look at how it might be used to benefit our sector.

Ms Pastoor: Thank you very much.

The Acting Chair: Thank you.

Next up we have Mr. Goudreau.

Mr. Goudreau: Thank you. Mr. Knapp, thank you to you and your staff for being here this morning. There's no doubt – you've identified that in your opening comments – that agriculture is Alberta's largest renewable industry.

I'm referring now to page 11 of the annual report. Part of ensuring that this industry remains strong and healthy in the long term is to encourage environmentally responsible agriculture and those practices to help maintain our land, the air, and the water. An important role for your department is to support our producers in adopting those innovative and environmentally sustainable practices. But when I look at the targets and the actuals and specifically under environmental stewardship there, you've got a target of just 59 per cent, and your result last year was at 55 per cent. Given the importance of the environment and environmental sustainability to the future of the agricultural industry it seems to me that those numbers are low. I would appreciate any comments.

Mr. Knapp: Thank you for that question. On the face of it those numbers do look low. Again, that survey is an extremely comprehensive survey, with 41 different survey indicators, and each of those 41 is weighted on the basis of its impact environmentally upon the agriculture sector. The reason the numbers look as bad as they do in part is because we tend to up the ante each and every year. As practices become more and more mainstream, they're no longer environmental change indicators, so we're tending to put in those factors that are harder to achieve: newer technology, greater

awareness of the interface of agriculture and the environment, sometimes new tillage techniques that are enabled by things like GPS, GIS, and so on.

Part of it is constantly raising the bar for ourselves. That keeps that number where it is. But it's certainly something we're aware of. It may perhaps be something in our annual discussion with the Auditor General on performance methodology that we want to have a look at.

I'm not sure we're giving the industry the full credit it deserves for its wonderful record of environmental adaptiveness. Minimum tillage and zero tillage, for example, is something I think of that has been one of the most unsung revolutions on the Canadian prairies. More than 70 per cent of land, which formerly was tilled anywhere from two to five times each year, is now not tilled at all through zero tillage or is minimally disturbed through minimum tillage during seeding and harvesting operations. So there's a huge impact on soil organic matter, which in some cases has been rebuilt from 5 per cent to 7 per cent under 20 years of that regime, a huge impact on the microflora and fauna, and a huge impact on biodiversity. Also, from a farmer's perspective it's got a lot of impact on the bottom line when you need less iron and less fuel to get your crop in.

Mr. Goudreau: Thank you. I certainly have a lot of iron for sale in my part of the world, and there's no doubt that if somebody is looking for a cheap plow, there's a pile of them out there. They haven't used them in years.

Given the figures and the numbers that you're talking about, Mr. Knapp, what are we doing to encourage greater environmental stewardship and to encourage the adoption of innovative farming practices?

Mr. Knapp: It's actually an area we're very active in. One of the areas I think of is AOPA, the Agricultural Operation Practices Act, which is the overarching legislation which governs intensive livestock production in Alberta, and under that act you've got a regulatory body, the Natural Resources Conservation Board, which we obviously work closely with. They've got the regulatory stream, and it's fitting that that stream perhaps not be within the industry that's an advocate of agriculture. We've got an extension stream, and that stream works very closely with farmers, ranchers, intensive livestock producers across Alberta on things like manure management, water quality management, lagoon management, minimization of throughput, optimization of hauling distance for manure, incorporation of manure into the soil at optimum times, fertigation, you know, and the many other technological opportunities we have.

In addition, we work closely with the Alberta environmental partnership, which is a network representing Ducks Unlimited, all the major livestock producing areas, the federal government, Alberta Environment, and so on in a way that looks at the policy interface between agriculture and the environment and works in a forward-looking way towards better agricultural programming.

By no means last of all, one last example might be our AESA program. We provide funding for agricultural service boards across the province, who tend to hire usually young graduates from university in their community, and those young graduates work directly with service boards and with farmers in the area to help them with things like the Alberta environmental farm plan, where those farmers do a full assessment, again, of things like fuel tanks, tillage, drainage, water quality, dugout quality, all the things that would help you as a farmer not only feel better but be better about your interface with the environment.

The Acting Chair: Thank you very much, Mr. Knapp.

Mr. Goudreau, we're going to go to the opposition at this point, but you'll have an opportunity afterwards.

Right now we have Mr. Ian Donovan on behalf of the Wildrose Official Opposition.

Mr. Donovan: Thank you, Mr. Chairman. First off, I want to thank everyone that's come from your department. As an active farmer I'm very proud to be a producer in Alberta, and I think we have a lot of great things here. You touched on the largest renewable resource in the province. I think that's something that as a farmer, first off, and as the MLA for the Little Bow riding, which is a large agricultural area which has numerous excellent programs out there, with irrigation, dryland, all the dairy and cattle and poultry, of course, and pork – they've had some hard years also. But I think we do lay out quite a few good things there.

Now, some of my previous experience on council and some of the boards we sat on came across. Mr. Allen talked about community futures and high-risk lending and stuff, and that leads into some of the commercial lending that AFSC does. I think there are some positives of what they do in rural Alberta for the lending that goes out to keep rural Alberta vibrant.

When we get into some different things – of course, I jump around a little bit, if anybody knows me at all – when we get into the lending, now, with farmland basically climbing at fairly high rates, and we talk about that it's been a good investment for the corporation to lend against, is your department getting enough money to be able to offset the values of land in our area going anywhere from a thousand dollars an acre 10 years ago up to \$2,500 to \$3,000 an acre? On your report here on page 11 I see that the numbers have gone up. Are you hitting your ceilings on your lending targets at AFSC?

Mr. Klak: The answer is yes. We are hitting our targets. I've been with AFSC for just over eight years, and eight years ago we set a record with \$178 million worth of new lending on a portfolio of under a billion dollars. Fast-forward that eight years. In the 2011 year we were just under \$500 million; it was \$490 million. Go to this past year that we just went through. It was closer to \$600 million on a portfolio of just under \$2 billion. So exactly what you're talking about is happening out there. A quarter section of irrigated land in the Bow Island area just sold for a million dollars. Our board of directors does believe that our lending limits and even some of the program relevancy, some of the stop positions that we've taken are probably more respective to what was happening a decade ago. It's just happening so quickly that we want to be respectful.

9:10

We don't want to be lending out money irresponsibly, but agriculture – both the value of the land and the value of the crop and the cost of those inputs – is moving so quickly right now. We want to be relevant to it. With the succession issues that are also taking place out there, both intergenerational as well as just sales to neighbouring operations or incoming operations, we're really looking at all of our lending programs right now, our value-added agribusiness programs, and our primary programs and saying: are they contemporary? Do they need to be able to change? Do things like lending limits and features need to be changed in order to respect the growth and the opportunity that's occurring?

To Mr. Knapp's statement, you know, if we can see – I think some people talk about the golden years of agriculture really coming at us, where you're not just going from recovery position to recovery but actually looking at growth and going more to an

offensive position. AFSC has a strong desire to play that role, but we do want to continually take a look at how our programs are engendering that type of a position.

Mr. Donovan: Thank you.

Just on that, then, on page 6 of the background material here the AgriStability has a yearly benefit threshold of \$5 million per participant in Alberta. How many operations are getting close to this maximum allowed payout in AgriStability?

Mr. Klak: Very, very few. I would say that in that 2011 year it was fewer than 12 out of 25,000 participants. This past year it was probably less than half a dozen just because they're making their money out of the marketplace. They're not making it out of stabilization programs.

Mr. Donovan: Okay. Thank you on that.

I always try to focus on positive stuff, but as a producer, I guess, some of the goals – the planned turnaround for 2011 was within 30 days, and it was actually closer to 72. Was the reason for this just because there was a backlog of claims from the previous year, 2010?

Mr. Klak: Probably the more important factor is that if you go back to that year – you'll recall even on your own operation – we had a drought situation in the north, and we had flooding positions in the south. So we had two agrirecoveries that we were responsible for administering plus a bit of backlog. We have a finite staff resource. It takes an awful lot of effort off the one file to put it onto where sort of the emergency or the crisis is. So it was really a combined effect of the weather, the impact on that, and the fact that, you know, those AgriStability claims are time consuming. There is a vast majority that we've tried to automate, but the ones that are complex and large do take a lot of effort. We tried to spread our staff resource as best we could, but that was the real reason for not making those targets.

Mr. Donovan: Thank you for that.

I always try to stick to the Auditor General's report of the year. I think there are a lot of positives in agriculture right now, but we're working on this report today.

Now, I guess, on the AFSC lending side where is the general trend going on applications for the loans? Are we seeing intensive livestock kind of at a standstill just because of pricing? Is it more grain producers and stuff? Do you have any kind of trends on that right now?

Mr. Klak: It's definitely trending towards a little bit larger operations. As I mentioned previously, the impact is showing up because of some of the consolidation both on the livestock side but especially on grains and oilseed. The average loan size for AFSC – and that's on almost a \$2 billion portfolio – is still about a quarter of a million dollars. We're seeing more coming in closer to that \$3 million to \$5 million range, more than we've ever seen before, but we haven't seen that pick up from a trend standpoint. It's really small.

AFSC is a piece of their lending activities. We're not all of it. We don't want to be. We're not a full-service operation. We want to be there for their term debt and some of the features that we can attract them with. Our most popular product is our 20-year, fixed-rate product. If you go on our website right now and take a look, I think a producer can borrow up to \$5 million – 20 year, fixed rate – for about 5 and a half per cent. In today's interest rate environment that may seem high, but historically to be able to lock in a piece of your debt financing for long term and to be able to take

some of that volatility out derisks that to a certain extent. That's where our trend is going.

We're probably moving over the next few years from that average 10,000 clients, \$250,000 average closer to \$350,000 to \$500,000. We're seeing a huge amount of our clients – 65 per cent of our lending last year was to existing clients, so we're seeing those existing clients, that 10,000, getting bigger. We're trying to do a lot of marketing right now to be relevant and really understand what some of those alternative producers are looking for, especially in your area, producers that are looking at specialty crops, expanding operations, putting value-added operations as a part of their businesses. Those requests and those concerns are coming in probably faster than ever before because there's profitability on the farm, and there hasn't been profitability for reinvestment, in my experience, in a long time. So that's leading to a level of optimism.

It goes back to my previous statement that we need to make sure that our programs are flexible enough and that we are being relevant to that growth. It really right now, in my opinion, is all about growth.

Mr. Donovan: Thank you for that. Actually, I was in last week just doing my crop report for crop insurance myself, and I think it was 5.05 per cent for 20 years. At the local office in Vulcan that I was in, I think they're getting lots of people through that, so I think that's a positive on that.

I'll jump to the Alberta Livestock and Meat Agency. In 2008 ALMA was introduced as a way of addressing problems of the industry. One of the significant challenges to producers in Alberta is MCOOL for the United States. Over the 2011-2012 fiscal year the strategy was updated in order to deal with MCOOL specifically. ALMA has five main goals: increased market access, Alberta-based livestock and meat products by choice, enhanced competitiveness and profitability, advancement in information flow and systems, and enhanced industry engagement. Now, out of these, obviously, the main goal is enhanced competitiveness, where ALMA had funding levels of \$28.5 million.

Now, goal 1, increased market access, only received \$759,000 and produced two projects. Considering the strong increase in demand for protein in the developing world, where do we see that going? I mean, I was at the beef congress in Banff back in February, and that's one of the large things there. Mr. Cove and I have had lunch a couple of times on this, and I'm getting to learn ALMA a little bit better. Do we see this moving forward any farther, I guess, as agricultural producers, protein to the developing world? When we talk about India and stuff, those are the markets I think we're definitely going after and the positives of it. Do we see more money going forward into the market access side for that?

Mr. Knapp: First of all, there's no question that given the opportunities I spoke about in my opening comments, that market access – and I define market access as opening the door to trade – that's a government-to-government piece of work, followed by market development, which is something, for example, that our minister and the federal minister were just in Kazakhstan doing. Every time we go there, we seem to come out with \$50 million in sales of livestock genetic products – semen, frozen embryos – live cattle sales, machinery sales, and so on. So there's no question that globally the ministry, including ALMA, will be significantly increasing its efforts in those areas. The AFSC is doing some great work in that area as well, doing a lot of investment attraction from those jurisdictions, which usually leads to more business transactions as well.

Going back to ALMA-specific expenditures, what you see in ALMA is only a small part of the total effort reflected. The market access piece, the pure opening the door piece, tends to be ALMA providing some policy advice to the minister and the department, who, in turn, are doing a significant amount of more work on the market access piece, especially working with the federal government.

MCOOL, specifically, the mandatory country of origin labelling, was a measure brought in by the U.S. Within the context of NAFTA, the North American free trade agreement between Canada, U.S., and Mexico, the U.S. put some very restrictive and prohibitive labelling requirements on beef products. For example, this animal was born in Canada, raised in Canada, slaughtered in the United States. So processing facilities that normally might have had about 250 products were required now to label more than a thousand products. Nobody won. U.S. processors are very upset with this, the U.S. beef industry is very upset with this, the pork industry is, as are Canadian processors and our beef and pork industries.

9:20

The U.S. has taken a hard stance on that for their own reasons. They've lost twice to the world tribunal on this issue, the WTO tribunal. They had until the 23rd of May, last week, to say: "Okay. We heard you, panel. We will fix this." They came out with a fix that, in fact, was more draconian, more severe in terms of labelling requirements, a little bit of a: how do you like us now? As a consequence, the federal minister with our minister's support has indicated they are going to review U.S. products coming into Canada in terms of increased tariff requirements.

Clearly, ministers are cautious about getting into a trade war with the U.S. We will take that one final time to the WTO appellate tribunal for a ruling, and if the U.S. fails to respond appropriately, having twice been asked to by the appellate body, we will be in a position to legally impose tariff barriers.

Mr. Donovan: It there a timeline on when that would happen? I know it's not on the Auditor General's, but it's a very large concern to producers in my area.

Mr. Knapp: Yeah. There were timelines on the first two appellate periods, May 23 being the final response period for the U.S. There is no fixed timeline on this last appeal. We've spoken in depth with the federal government. We understand that they are wanting to prepare a very strong case. They feel it'll be anywhere from 30 to 60 days that they will take internally in consultation with us to prepare that case, so I expect to see some action from the federal government probably somewhere in the July period.

Mr. Donovan: Okay. Thank you for that.

One of the other things, too, in the report is research and development. You know, with the world going to about 9 billion people by 2050, I would also like to just hope that the department stays along with their money into research and development. I think we've seen you talk about one-passing and minimal till and stuff. I think the value-added that agriculture is doing has come a long way, and I'd hate to regress on that at any time. I get that from a lot of producers that I meet and talk with, that research and development is key. I think we've come a long way in what we're producing, whether it be cattle, using less silage and going to more of a hot mixture of grain, and grain producers rolling out more grain per acre than they have in a number of years. I think that's something that we need to stay focused on. Like I say, my riding is very big on that.

A couple of things. I want to go back maybe to AgriStability and some of the overpayments over the years. We have a \$21.1 million allowance in doubtful accounts for overpayments. Are we having good luck on recovering those overpayments? Now, being a producer I know some of the forms are very complex and it's a bit of an estimate on when you're first getting out, and with producers being larger, it does roll around on that, but what are the odds of recovery on that? Are you satisfied that that's going to be obtainable?

Mr. Klak: We want to take a fair but fairly aggressive approach towards overpayments. Overpayments can occur for a variety of reasons, as you referenced. They can occur because of accounting errors. In a complex program that looks at a program year and that then looks back five years, inventory values can be misstated. In theory it's a simple program; in reality it's a very complex program. Being able to ensure that we have good cross-compliance – and we have great statistics and great information against that producer because we know what they grew, we know when they grew it, we know what they received for it, we know how they insured it in many respects because they're both an AgriStability client as well as an insurance client.

We're trying to mechanize it. We're trying to ensure that we're being fair. But we're also dealing with public dollars, federal and provincial public dollars. We are probably the most responsible, in my opinion, jurisdiction in going back and reviewing these when we know that there are problems and red flags have occurred, reviewing it with the producer and usually with their accountant or their agent and seeing if we can come to some sort of an understanding. We don't let producers off the hook. We get a lot and I'm sure your offices get a lot of concerns with: "It really wasn't my fault. It was someone else's. Can we forget about this?" But we don't feel we can.

The Acting Chair: Thank you, Mr. Klak. Sorry. We're just out of time here.

We'll next head to Mr. Kent Hehr by teleconference on behalf of the Liberal caucus.

Mr. Hehr: Well, thank you very much, Mr. Chair. I'd like to thank the Ministry of Agriculture and Rural Development for both their report as well as the questions they've answered today. I feel that in the hour and a half we've devoted both before this meeting and during this meeting, I've learned a great deal more about agriculture and rural development, which is a good thing for us in this room.

Moving on to the questions, I'd like to talk about AgriStability. AgriStability is the agricultural income stabilization program that provides income support to farmers who suffer a significant decline in farming operation margins due to factors beyond their control such as production shortfalls, rising input costs, or falling commodity prices. To be eligible to participate the producer must report farming income or loss in Canada in that year for income tax purposes, have carried out a minimum of six consecutive months of farming activity, and completed a production cycle. My question in this regard is: what is the rationale for making AgriStability available to large commercial producers given that such operations are more likely to have the resources necessary to cover considerable margin decreases as compared to farms operated by individuals or families?

Mr. Klak: I guess the philosophy – and this has been consistent since AgriStability and some of its predecessors, the CAIS program, even the FIDP, or the farm income disaster program, were put in place – was that we're not taking a social approach. We're

taking an economic approach whether you're a large operation or whether you're a small operation. In reality large operations tend to have more diversification options than small operations. But the philosophy when the federal and provincial governments put these programs together was not about supporting one size of operation over the other; it was to recognize that what we want to see are successful operations.

Whether you're large or small, you go through the same weather events, you go through the same market downturns, you go through BSE in the same way. Large operations employ large numbers of people. Small operations don't necessarily do that. But they're all important, and they need to be respected for the economic impact and for the fact that they experience the same disasters, the same problems. They just are economically affected to different extents.

There are limits on that, though. Across Canada up until this past year, this past budget cycle, Canadian operations of any size could not receive more than \$3 million worth of support in any given year from the AgriStability program. In Alberta the provincial government had agreed to put that number at \$5 million, and that \$2 million top-up was provincial only money. It was really out of respect for the size and the importance of a lot of our large operations and specifically the impact that situations like BSE had on some of our large feedlots and our large integrated operations. So up until recently there were some limits on it.

Mr. Hehr: Well, I appreciate that. It sounds like the philosophy came out as a reasoned one around the BSE time. Is that philosophy still valid? Do we have to relook at it? Is it time for us maybe to take these larger corporations off of this program and maybe react to it on a case-by-case basis should the need arise in the future?

Mr. Klak: Member, I guess to your point, the government in its last budget set the limits down to the national level, so from an AgriStability standpoint no operation can receive more than \$3 million. I think the philosophy still stands, that an operation is an operation.

But what we're also seeing is that the market is starting to work a lot more effectively. From the BSE, you know, it wasn't just the stabilization programs, but we worked aggressively with groups like Alberta Cattle Producers and Canadian Cattlemen's Association to put livestock price insurance programs in place, and it's essentially an unsubsidized program. Producers are really starting to take advantage of that to insure themselves against price declines.

So I would say that it's not a philosophical shift that's happening; it's just a reality shift. Producers are looking at those growth opportunities. The programs are geared more to disasters, but we're putting in more contemporary programs to be able to cover that off. I think that's more the trend as opposed to ratcheting down the numbers.

9:30

Mr. Hehr: Okay. This is just a follow-up from a question earlier. You mentioned intergenerational transfers of farms as well as incoming new farm operations. Do you have any sense of the incoming farmers? Are these more of the larger corporate farming outfits that we have seen out there, or is it still quite a bit of the traditional family farm that is seeing the uptick in our farming industry? Do you have some sort of sense of that?

Mr. Klak: John may have a comment, too, but from our standpoint at AFSC we're seeing a lot more intergenerational transfers just because the average age of a producer, I think, in Alberta –

and it probably holds for western Canada – is in the mid-50s right now. They're very highly capitalized and looking at ways that they can transfer that amongst family members. That's occurring probably as significantly as it ever has.

When I say new, there are some new entrants that are coming in from outside, but again the vast majority of those operations are neighbours purchasing neighbours, family farms combining into corporate entities that are still very much family farms, but those family farms are becoming of a size – as we mentioned earlier, when you've got irrigated land selling for what it's selling for in southern Alberta, with the productive capacity and the new products that it can grow, we're seeing a lot more creativity in the way that a family farm is structured because a family farm is really a family business.

I don't know if John has anything else to add, but that's the trend from our standpoint that I'm seeing from our lending and our insurance business. It's really not a whole bunch of outsiders to Alberta coming in. If anything, there have probably been more Albertans investing in Saskatchewan than vice versa. The foreign investment cycle on the agriculture side really hasn't touched Alberta to the same extent that it's touched other jurisdictions, probably because of farmland values and because historically it's been more of a consolidated approach in our province as opposed to an outside influence.

Mr. Hehr: So then it was my misnomer that only large corporations and large existing organizations were taking over the farming business. I'm actually glad to hear that.

But just one final question. I think I've got a couple of minutes left. Is the threshold for AgriStability payment of 85 per cent for producers' reference margin appropriate across the board considering that this applies to both small businesses and larger commercial operations? Is it appropriate that large operations that are generally highly profitable but which have fewer off years are eligible to receive AgriStability payments at all or to the same extent as small producers? I think you've touched on this, but if you could sort of talk about whether there's any talk about those limits or anything like that. Or have you covered that in your first answer?

The Acting Chair: You have about 15 seconds if you want to respond, or you could provide a written response.

Mr. Klak: As I mentioned, I think politicians and the governments across Canada have recognized that 85 per cent is probably not appropriate, so in this year they've moved it down to 70 per cent. That's the situation.

Mr. Hehr: Okay. Thank you very much for your time.

The Acting Chair: Next up we have Mr. Deron Bilous from the NDP caucus.

Mr. Bilous: Thank you, Mr. Chair. I'd like to thank the ministry for bringing all the staff that they did. I'm going to start off by actually reading several questions. I'll request that you folks respond to my initial questions in writing, and then I'll move to questions that I'd like to discuss while we're here today. I'm doing it in the reverse order just because my time is quite short, and I'd rather get them onto the record.

I'm interested in using the time that I have today to ask questions about what your department is doing to promote food safety. That's what I'm going to focus on. Over the past decade we've seen numerous incidents involving food safety that have affected the health of some Albertans and impacted the perception

of our industry and had real implications for the competitiveness and viability of our agricultural sector. On page 11 of the annual report it shows that the number of food processing facilities participating in the Alberta hazard analysis critical control point advantage program has dropped considerably in the past five years. This is a preventative program. It seeks to prevent food safety problems from occurring.

The following questions I'll request a written response for. How many food processing facilities exist in Alberta today? How many in total have participated in the HACCP advantage program since it was first implemented, and how many have never participated? Can you tell us why the number of participating processing facilities has dropped so significantly, from 148 in 2007-08 to just 34 in 2011-12? Do we not want to see the number increasing rather than decreasing? What's going on with those numbers? Why is the target 54, but the actual is only 34? What measures are being taken to increase the number of food processing facilities participating in the HACCP advantage program? What kind of government oversight is provided for HACCP systems? I understand that they're designed and implemented by individual processors in each facility, but how does the government verify that these systems are put into practice, and is verification performed by the government or by a contracted agency? Having said all that, again, we'll wait for those responses unless we have time at the end.

I want to talk a little bit about ALMA. The Alberta Livestock and Meat Agency exists to promote competitiveness and sustainability within the livestock industry. On page 9 of the annual report it states, "The agency's priority areas are market access, streamlining the regulatory burden, synergistic growth, domestic positioning and information flow." However, it seems to me that food safety is the primary issue that has limited market access and threatened the competitiveness and long-term viability of the sector, yet I don't see that promoting food safety measures is actually an objective of ALMA. It seems that ALMA, from what I read, is focusing more on lobbying or promotions.

My first question: how does ALMA determine its grant recipients? How many grants last year were awarded to projects designated to enhance food safety?

Mr. Knapp: Mr. Chair, if the member will allow it, I'll speak briefly to the context of the broad set of questions on food safety and then come back to ALMA's grant process.

The measures you see in our 2011 annual report look like the trend is moving in the wrong direction. In fact, the fact that it's moving in that direction is a good thing. Let me explain that. It's good because HACCP, which came very strongly into practice in the late '90s and early 2000s, is now being increasingly replaced by food safety systems that are driven directly by the retailers. They're market specific, they're product specific, they're more in depth, and they're more comprehensive. They incorporate almost every element of HACCP and then some. So in the strictest reporting terms those companies that are adopting HACCP tend to be more entry level or smaller level. Many more companies have gone much more sophisticated, and they're adopting industry-specific. For example, if you want to market pork products to Loblaw's, you'd better be on Loblaw's food safety program, which is an enhanced HACCP program.

It's probably time to take that measurement and regroup and, again, in discussion with the Auditor General say: what would an appropriate measurement be? I personally think a more appropriate measurement would be a demonstration of adoption of a comprehensive food safety control system. That's the outcome

we're looking for. The outcome we want is safe food, safe Albertans, safe Canadians.

Mr. Bilous: If I can just jump in real quick: would you want the government to have that oversight on this system, or would you leave it up to industry to regulate and monitor themselves?

Mr. Knapp: There's no question that the public wants government to continue to have a role in the inspection and certification. First, the overall certification, probably through the Canadian Food Inspection Agency, of the actual system itself: is it robust enough to meet the safe food needs of Canadians and Albertans? Secondly, is there in-plant inspection of slaughter facilities and food processing facilities?

In Alberta our meat inspection team inspects 50 red meat processing facilities and about another 80 poultry processing facilities, and I'm pleased to say that their record is outstanding in terms of safe food. You rarely hear of a safe food incident coming from one of the provincially inspected plants, so there's no question that there is a very robust system in place. That inspection system will stay in place. That's what Albertans and Canadians have said they want and need from an outcomes-based system.

9:40

The change we will likely see, just to come back to food safety, is that instead of being quite as prescriptive, food safety inspection is going to be more outcomes-based. Instead of saying, "The drain will be four feet from the wall" or "The tiles will be 36 inches from the floor," because a drain that's four feet from the wall may or may not provide the adequate drainage required and a set of tiles that are 36 inches from the floor may or may not provide the sanitized wall covering that's totally washable and can be disinfected that a different set of tiles can provide, we're moving to an outcome system, which says things more like: "Drainage that removes all pathogens will be required. Wall systems that can be one hundred per cent sanitized are required." So it's allowing the industry to go to an outcomes focus.

We're currently meeting with industry. In fact, on this coming Saturday we've got an all-Alberta meeting with all of the industries we inspect to move forward on a comprehensive approach to an outcomes-based system.

Mr. Bilous: Mr. Knapp, I appreciate your response.

I have about a minute, I believe, so I'll just read several other questions into the record and request that your ministry respond if possible. I appreciate your response to food safety, but if we could find out: how does ALMA determine its grant recipients? How many grants last year were rewarded to projects designed to enhance food safety? I find it interesting that some of the grant monies went to projects like \$500,000 for Taste Alberta advertising in the *Edmonton Journal* and *Calgary Herald* as well as just under a million for an Alberta beef marketing campaign. I'm wondering: why is government funding these advertising costs for industry? What are the reporting mechanisms that these grant recipients follow, and are those measures publicly accessible?

As well, according to page 34 of the annual report the total number of samples tested for BSE in 2011-12 was 6,840, but in 2005 a total of 30,536 samples were tested. Even in 2010-11 a total of 9,400 samples were tested, according to page 27 of the annual report from that year. As well, earlier today you stated that around 30,000 samples are tested per year even though that number seems to contradict the three years that I've just given. How is the number of necessary samples determined from year to year? What was the effect of eliminating the \$150 per sample

incentive in September 2011, which has been offered previously by the Alberta government to producers?

The Acting Chair: Mr. Bilous, you have five seconds.

Mr. Bilous: Urban community garden initiatives: are there any grant opportunities provided by the agriculture department to support farmers' markets, and what are those numbers in 2011-12?

The Acting Chair: Way to fill that in there.

Would you agree to provide written responses to those questions?

Mr. Knapp: Certainly, I'll provide those responses.

Mr. Chair, if I could correct one – I don't want the member to go away with one possible bit of misinformation.

The Acting Chair: Sure.

Mr. Knapp: I believe in my comments I said that the national requirement established by the OIE for testing across Canada is 30,000 head per year. That's what Canada as a nation must provide. The Alberta numbers are a subset of that. That may explain the differences.

The Acting Chair: Thank you very much, Mr. Knapp.

We'll now go back to government members, starting with Mr. Dorward.

Mr. Dorward: Thank you. I wanted to commend you on your annual report in a number of ways. It is narrative in the sense that you're explaining things. Certainly, some things jump out. You have things on page 16, highlights, for example. You have something called Measuring Our Success and Did You Know? You know, these are components of the annual report as you go through the first part. On page 23 is the council profile. You use the annual report to teach, but one's eyes go to those items and don't necessarily read the information that's in between. If you look at corporate annual returns over a period of time, they've certainly evolved to do much more teaching, like you're doing here, without a lot of the verbiage. Just a comment on that. I think an annual report – but I'm biased – should be something that the techies want to take the back half of, but the general public might want to take the front half and learn a lot in a short time about how wonderful are the results of the things that you're doing, essentially.

Now, if I could go specifically in the annual report to something that's very technical, in note 4 on page 62. You did a good job of describing your credit and interest rate risk, I felt here, but there was a comment on the top of page 63 that I was confused about, and it may be why you make the comment that "interest rate risk related to borrowing is not significant." The spread that you've got, particularly in the six to 10 years, is fairly significant. It's the biggest spread. Your yield is 5.02 per cent in the six to 10 years, and the borrowing from the government of Alberta is 3.93 per cent, so that's the most positive spread there in that situation with the gap.

If you could make a comment on your phraseology at the top of page 63 – I think it's the third line – that "the Government of Alberta provides an amount to bridge the gap between interest [rate] revenue from loan portfolio and interest on borrowings annually through the budget process." Does that mean that, essentially, you feel that the government of Alberta is hedging the interest rate risk you have?

Mr. Kay: Thank you for the question. To a certain extent, yes. Because our loan portfolio is structured so that any producer is

able to repay their loan at any given point in time without any prepayment penalty, we are exposed to interest rate risks. We borrow long term, and unfortunately on the lending side anyone can prepay at any time. Certainly, in the last couple years as interest rates have fallen dramatically, we've seen significant prepayments. So we do have interest rate risk. We are exposed to some of that risk.

Part of the budget process, part of the funding from the government helps us bridge that gap. You know, there are certainly other ways that we could look at, things like derivatives, interest rate swaps, those types of things, but we are hesitant to take on that risk as a government entity. As a result, you know, part of that funding that we do receive from the government kind of helps us bridge that gap between our interest revenue and our interest expense.

Mr. Dorward: Okay. Thank you.

We'll move on to Mr. Khan.

Mr. Khan: Thank you. Thank you, Mr. Knapp. Thank you for your team showing up and providing us with such fulsome information today. I'm one of those people who believe that you are doing remarkable work, and part of our job in government is to promote and educate the public on how great a job you're doing.

I'm very encouraged today to hear you speak extensively about innovation and science and research as it pertains to ag. We've heard a lot about some of the initiatives that your department is leading like the genome mapping and some of the bioscience and crop science. That takes me to page 90 of your ministry annual report. We see a little bit of a discrepancy between your 2011-12 estimates when it comes to research and innovation and the actual expenses to the tune of – we have estimates of almost \$18 million, and the actual expenses come out to about 31 and a half million dollars. I'm just curious as to some comments as to the discrepancy and the gap in those numbers.

Mr. Knapp: That's an excellent question, and I think I can respond to that. It's nice to actually spend more in this case than the estimates were. As the year went on, it became increasingly clear that what we've heard from some members this morning was beginning to be more and more important to the industry. The industry began to tell us increasingly: we want to get our money from the marketplace, not the mailbox, and the single most important thing you can do to help us get there is invest more in research and innovation.

As the year progressed, we were able to move some money from one portfolio into the research portfolio. In fact, we put 12 million additional dollars into funding what we call ACIDF, the Alberta Crop Industry Development Fund. That's a fund driven by a farm board. The members of all the major farm commodities elect a member to that board, and that board provides research funding to universities, to Agriculture and Agri-Food Canada, and to many other industry-based researchers.

9:50

Some of the things they've done is work on clubroot-resistant canola, for example. Canola is a multibillion-dollar crop in Alberta, and if clubroot became mainstream, it would devastate our exports. They've done work on improving barley varieties, and those are varieties that would increase the yield by up to 50 per cent, which would reduce the very high cost, consequently, for feedlots and hog operators in terms of barley feeding. For a hog operation about 75 per cent of total costs now are barley or feed input. Those are just some examples of what has come from that investment, and that's why the actual expenditures are higher.

Mr. Khan: That's a terrific answer, and I appreciate that very much. I would encourage very much that dollars be spent on research and innovation. I believe that we have a remarkable opportunity here in Alberta, as you spoke to in your opening address, and anything we can do to increase our competitiveness and utilize the remarkable science and research communities that we have here I would strongly recommend and endorse. I'm just curious. Based on those numbers – and I know it's difficult to track – do you have any preliminary numbers in terms of a return on your investment for that 31 and a half million dollars in research and innovation?

Mr. Knapp: I can't produce a report for you that's specific to that exact budget year, but all of our surveys are similar to surveys done around the world. The work that we've done in Alberta, in Canada, in Ireland, in the United States, in Finland, in many EC countries, in Mexico tends to produce this remarkable ROI for research-specific investment, specifically in agriculture, of anywhere from \$8 to \$1 to \$30 to \$1. So farmers and ranchers and food processors are saying that the single most important thing you can do is invest a dollar in research, for example, versus invest a dollar in industry support programs. On industry support they prop you up. You get a dollar for a dollar. On research you get \$8 or \$30 for a dollar. So I think that there's no question; everyone is recognizing the importance of that investment.

Mr. Khan: Okay. Terrific.

The Acting Chair: You have some other colleagues. Perhaps we can go to them, and if there's time at the end, we'll go back.

Mr. Khan: Fair enough, Mr. Chair. Thank you for the opportunity.

The Acting Chair: Mr. Quadri.

Mr. Quadri: Thank you, Chair. I had another question about this. You know, we all remember the tremendous devastation in the town of Slave Lake as the result of the May 2011 wildfire and that a significant portion of the community by force had to do an evacuation. They had to move from the town. I remember that one of the Alberta government's responses was to come up with a plan to establish a Slave Lake disaster assistance benefit through the Agriculture Financial Services Corporation to help businesses recover funding for the evacuation.

On page 22 of the annual report the department notes that approximately 75 applications were still being processed or had been distributed to the businesses for the conservation. Can you provide the updated status on those applications, please?

Mr. Klak: The previous member used the word "remarkable," and I think this was a remarkable program because it really did help a community that was down on its knees. If you go back to May 2011, when there was such a devastating impact to that community, the government didn't ask AFSC at the time. What I was very proud of about AFSC is that we were proactive. We had hardly any loans in that community, but we said: what could we do? We worked with the government to put the Slave Lake disaster benefit program together, gave businesses within that community the opportunity to have two years interest free, not a gift or a grant but two years of interest-free money, up to \$5 million.

To your specific question on the ones that were outstanding at that point, I think that approximately 30 of those loans were approved that were outstanding at the end of that year, for an additional \$18 million.

The overall benefit, though, if I might be able to say, because we've wrapped up that program, is that in the end we did 162 loans, and we approved more than \$111 million; we met with over 250 businesses within that community, and over half of them we ended up supporting; and the overall cost to the government of Alberta in that interest-free period was approximately \$14 million. So if you look at the economics and the social, the optimism that that helped inject into that community, I think it was remarkable, to use a previous member's words.

Mr. Quadri: Great job. But can you provide the summary . . .

The Acting Chair: Maybe you can have a written response to this question, if that's all right.

Mr. Quadri: Sure. I'll just read this.

Can you please provide the summary of what the total impact of the program has been?

Mr. Klak: I think I just did a little bit. The only other thing that I would say is that in addition to that \$111 million, there was a lot of equity that was put in by those community members, so the economic impact of it would have been some multiple thereof. It would probably be in the order of two to three to five times in terms of the impact overall it had within that community.

The Acting Chair: Is that a sufficient response for you, Mr. Quadri?

Mr. Quadri: Yeah.

The Acting Chair: At this point we'll just go around the room if anyone has any outstanding questions. I'll start with Mr. Donovan.

Mr. Donovan: Thank you. Just on my fiscal side. In 2011-2012 \$351,000 of ALMA's expenses went towards goal 5, which was industry engagement although there were no projects funded. Just what was this money used for? I'm sure it was used for something good, but it's always nice to have on the record what it was for.

Mr. Knapp: Yeah. ALMA does some excellent projects where they do one of two things. Number one, they will bring in a global speaker. In the past they've brought in Greg Page, the president of Cargill, and Mr. Wu from China – I believe you were there – who had some powerful insights on penetration into the Chinese market. They are this July bringing in Dr. Allan Savory, who is famous globally in terms of conservation-based grazing systems. Of course, from a market perspective consumers are wanting more and more to know how cattle are grazed and how livestock are raised. That's one side of the activity.

The other one is that ALMA supports those sides of industry where there may be industry trying to come together on an issue. For example, there's this exercise called the Straw Man going on right now. You mentioned John Kolk, who is certainly a part of that exercise. That's not ALMA trying to push industry in any direction. It's ALMA helping to facilitate industry to come together in their own sort of meeting place environment to determine what a better governance model for the industry collectively might be. ALMA is saying: "We can help. If you want to move in a direction, we can certainly help. We're not pushing you there. We're just here to help."

Those are a couple of examples of what that type of funding goes for.

Mr. Donovan: Thank you for that.

The Acting Chair: Thank you very much, Mr. Knapp. Mrs. Sarich.

Mrs. Sarich: Thank you very much, Mr. Chair. On the nonfinancial side is the issue of performance measures, and I'll just read the questions into the record for your written response. Has the ministry considered working with other provinces and the federal government to develop common performance measures for the areas that you traditionally put into your business plan? The second question is in reference to page 13 of your annual report. It was noted that relying solely on the United States as its main export area puts Alberta's agriculture sector at a disadvantage, the question being: does the ministry have performance measures specific to this particular issue within that goal?

Thank you.

The Acting Chair: Mr. Knapp, would your department provide a written response to that?

Mr. Knapp: We certainly could.

Mrs. Sarich: Thank you.

The Acting Chair: At this point we have about a minute left if anyone has any last-minute burning questions.

Mr. Goudreau: Just a very, very quick one. I'm referring to page 117 under the AFSC schedule of salaries and benefits. In light of all of the scrutiny and talk about transparency and accountability, the base salaries and cash benefits are identified there, but one thing that's missing it seems throughout the report is, you know, maybe senior administrative travel expenses and the various purposes for travel. I'm wondering if there would be a detailed breakdown of that. I guess I'm just open to that. A written response would be okay as well.

Thank you.

The Acting Chair: Would the department provide a written response to that? Okay. They have agreed to that.

I just want to thank Mr. Knapp and all of his staff – I think they were exceptionally well prepared and gave very direct answers; we really appreciate that – and, of course, our Auditor General, Mr. Saher, for his time. At this point the questioning is now over, so you're welcome to leave if you'd like. We're just going to finish up with the meeting here. Thank you so much.

10:00

All right. Very briefly, at our last meeting we put out a call for members who were interested in acting as alternate delegates for the Canadian Council of Public Accounts Committees conference in August – it's in Regina – in the event that the chair or deputy chair are unable to attend. There were no volunteers. The committee clerk put out a call for alternates again last week, and Mr. Donovan boldly stepped up and threw his name in as a candidate.

Regina in August, guys. Is there anyone else that would be interested in being a delegate for the conference?

Mr. Quadri: What are the dates?

The Acting Chair: August 25 to 27.

At this point the clerk will be doing a draw for this event. We have three people. The first alternate delegate is Mrs. Sarich. And Mr. Quadri, here you go. You're in, man.

Very quickly, for the committee's information, all the responses received from the ministries and other groups who have appeared before this committee and promised written responses have been

posted to both the internal and external committee websites. To date we have received responses from all the groups who have presented during the 28th Legislature up to and including March 13. Also, of the four colleges who appeared on April 24, we have received so far a response from the Alberta College of Art and Design, which has been posted.

Our next meeting will be held on Wednesday, June 5, at 8:30 in the morning in committee room A with Alberta Enterprise and

Advanced Education. This is a meeting where we will be focusing on the Enterprise side of the ministry. The prebriefing will occur from 8 to 8:30 a.m. in committee room B. This is the last scheduled meeting until September.

With that, I'd like someone to move that the meeting be adjourned. Mr. Amery. All those in favour? Opposed? Carried.

Thank you.

[The committee adjourned at 10:02 a.m.]

