

Standing Committee on the Alberta Heritage Savings Trust Fund Act

10:00 a.m.

[Deputy Chairman: Mr. Doerksen]

THE DEPUTY CHAIRMAN: We will call the meeting to order. We're delighted to have the hon. minister of agriculture before us this morning along with his staff. Walter, you've been through this before. The basic procedure is that we'll ask you to take 10 or 15 minutes and give us your introduction and introduce your staff to us, if you would. Then once your introductions and your opening comments are complete, we'll turn it over to questions from the members of the heritage committee, of which unfortunately there are only Liberals here this morning, except for myself of course, but I'm in the chair.

So with that, Walter, we'll just ask you to begin. Thanks for being here.

MR. PASZKOWSKI: Great. Good morning, everyone, and Happy New Year to everyone. Hopefully it'll be a good and productive year for all of us. It certainly has the makings of being a very exciting year, from our perspective at least, as far as agriculture is concerned. I think there are some very dominant things happening in the world. This is a time of opportunity for us. This is a time when we can rekindle the enthusiasm that this province was built on as far as agriculture is concerned. It's in a different form and a different way and a different manner in that we're looking at things like value adding, those type of processing, packaging that will add further value to the products that we're producing. So quite frankly I'm very excited about the future of the year.

To my right is my deputy, Doug Radke. To my left is Mr. Splane, the president of AFSC. We have Dave Schurman, the vice-president of AFSC, further to the left. Mr. Tackaberry is the director of rural development division. Mr. Tackaberry is to the far right. Brian Colgan of course is with the irrigation and resource management division, second from the right. Dr. Christian of course, I think you all know, is the executive director of the research division.

Again, it's a pleasure to be here today and to be responding to the 1994-95 public accounts programs supported by the heritage trust fund. As you know, in the past it's played a very major role and has significantly contributed to areas in development of agriculture. Because the heritage savings trust fund was established in 1976, many agricultural programs have come about and continue to play the vital role that they have in the past. It's allowed for the diversification of the agricultural economy in the province. These agricultural programs play a large part in setting the groundwork of many of Alberta's unique advantages, and indeed Alberta has special advantages because of this heritage savings trust fund. It's been administered very wisely over the past 20 years.

First of all, Farming for the Future. This of course is a research component, and this is what I consider a very exciting component of our agriculture. The Farming for the Future agricultural research funding program has been in existence for 16 of those 20 years. Its existence has led to an improved technology and better co-operation among the components of agriculture in the agricultural research community. The program supports research and knowledge and assists in supplying the knowledge to Alberta farmers and processors. The transfer of information is very key and very critical. We can accumulate all the information there is, and without the proper transfer and the proper communication to put it into the hands

of those who are going to be significant users and benefactors of that information, it's really not time well spent or money well spent.

Since '79 Farming for the Future has awarded nearly \$77 million to 875 projects on 1,017 demonstrations in the field. So obviously it's been very active, and we certainly are seeing some beneficial results coming forward from this. As I've mentioned before, we are right at the top as far as agriculture-producing provinces in Canada are concerned, and that's a very significant contribution to Alberta's economy as well. These projects have given farmers firsthand information on issues as diverse as controlling cattle diseases, alleviating soil compaction problems caused by farm equipment. Those are just two examples of research that's been done.

The payoff for farmers and food processors from the research and the profitable use of the research is the addition of tens of millions of dollars each year to the agricultural income of Alberta producers as well as Alberta companies. This is truly gratifying and a significant indicator of the Alberta advantage.

When the Farming for the Future program started in '79, Alberta's farm cash receipts were ranked third in the country at \$2.8 billion. In '95 we were neck and neck in first place and have been there all year. We're at \$5.8 billion, twice as much as when the program was instituted. So that's a fairly significant growth. In '94-95, the fiscal year under review, the heritage trust fund allocated \$4.8 million to the Farming for the Future program. The majority of that, 81.5 percent, was spent on research, 11.8 percent was used for demonstrations, and 6.7 percent was used for publishing and distributing the research information.

Farming for the Future has been a highly worthwhile and profitable investment of the heritage moneys, and I thank the committee and its predecessors for the wisdom it has shown in supporting this program over the years. I'm confident that the Farming for the Future program will continue to yield impressive results and contribute significantly to the Alberta agricultural and food industry. The program is being transferred to the general revenue fund as of April of '95.

Dealing with the grazing reserve enhancement program, the objective of the program is to develop 21 provincial grazing reserves in central and northern Alberta. The redevelopment is necessary because more than 136,000 acres of low-yield tame pastures were reverting to bush at a very rapid pace. The sustained development of our natural resources continues to be a priority of Alberta Agriculture, Food and Rural Development. The livestock grazing capacity of these reserves will be increased by 20,000 head. As an added bonus the wildlife habitat will also be significantly enhanced.

The enhancement program has completed year 5 of its seven-year program, and 80,000 acres have been redeveloped at a cost of \$15.1 million. A further 20,000 acres were redeveloped at the end of the year. In addition, 46,000 acres will be enhanced through the use of herbicides and fertilizers. When the grazing reserve enhancement program is completed in '96-97, full-cost recovery measures will be put in place, and these will include long-term maintenance coverage. These full costs will be paid by the patrons who receive the benefits.

The irrigation rehabilitation and expansion program, which began in '76, has increased Alberta's irrigated acreage by 39 percent. Irrigation activities employ more than 36,500 people and account for over a billion dollars in Alberta's gross domestic product. At the end of '94-95 a total of \$404 million was invested in irrigation rehabilitation and expansion through the Alberta heritage savings trust fund since 1976. That figure includes \$15.5 million for the irrigation district rehabilitation endowment fund, which is being disbursed to the irrigation districts over a three-year period. This program continues to support a reliable irrigation infrastructure to

deliver water to 125 million assessed acres – I'm getting a little carried away here with more under irrigation than we have under cultivation in Alberta – to 1.25 million acres. One point two five million acres are under irrigation in Alberta.

We also have a smaller program, the private irrigation development assistance program, in addition to the irrigation rehabilitation and expansion program. The assistance program covers up to 50 percent of the capital costs of private irrigation developments. These are private irrigators. During the six years the program has been in existence, 111 projects were assisted financially, resulting in more than 13,000 acres of new development. The total invested in the province for the private irrigation development assistance program over the six-year period is \$1,748,649. The '94-95 fiscal year was the final year of the program funded through the heritage savings trust fund.

The next item that I'd like to deal with very shortly is the Prince Rupert grain terminal. The Prince Rupert grain terminal handled 5.3 million tons of grain in the '94-95 crop year compared to 4.4 million the previous crop year, or an increase of 20.5 percent. In terms of financial performance, the Prince Rupert grain consortium made payments of \$17.3 million in interest to the Alberta first mortgage bonds and \$4.25 million in principal payments for that particular year.

10:10

Of the 1,000 grain hopper cars purchased through the heritage savings trust fund in 1980, there are 988 cars still in existence and still traveling the rails. The fleet has about 15 to 20 years of useful life left, and the current value of the cars is somewhere in the area of \$30 million.

Dealing with AFSC, the Alberta Agriculture Financial Services Corporation, it loaned \$66.6 million in direct farm loans in '94-95 compared to \$57.4 million the previous year. Despite an increase in the lending, the corporation did not borrow any long-term funds during the year. Funding from the province's general revenue for the corporation in regular programs dropped 26 percent over '93-94 to \$40.4 million. There was also a drop of \$3.8 million in funding for disaster programming.

Mr. Chairman, a combination of lower interest rates on renewed debentures, no additional borrowing, and administrative efficiencies contributed to this significant improvement in performance. Through better cash flow in the farm economy, improved portfolio management, and diligent collection efforts the corporation reduced the provision for bad debts to \$2.5 million in '94-95 from \$7.4 million the previous year. The merger of the Alberta Agriculture Development Corporation and Alberta Hail and Crop Insurance has been a success to date.

Mr. Chairman, that concludes my opening remarks. I'll be happy to answer any questions the committee members may have about these programs. For those questions I'm unable to answer immediately, we will certainly obtain the answers for you and get them back to you should we not be able to answer them here today.

Thank you.

THE DEPUTY CHAIRMAN: Thank you, Mr. Minister. Basically what we permit the members to do is ask three questions. They don't have to be related. If they ask a supplemental to a related topic, that counts as a question. We just are kind of informal in our questioning, so please accept it on that basis.

We'll start with Dr. Percy.

DR. PERCY: Thank you, Mr. Chairman. Mr. Minister, gentlemen, my question relates to the Prince Rupert grain terminal. Your comments had been sort of both retrospective and prospective about agriculture. Over the course of the summer there had been some discussion in the press regarding the financial viability of the consortium that operates that and their ability to meet their financial obligations. I was wondering if you could update the committee as to the exact status of the consortium and its financial position.

MR. PASZKOWSKI: We can. I'm not sure that that's the purpose of this, Mr. Chairman. Would you give some indication? Are we dealing in today's terms, or are we dealing in '94-95 terms?

DR. PERCY: Just as a supplementary. The reason I ask is that it is sort of an ongoing policy issue related to the ability of the mill to pay the interest and principal on the terminal.

MR. PASZKOWSKI: Well, there are negotiations.

DR. PERCY: The other reason I would ask this is because I was very curious as to what role the federal government could and should play in ensuring the continued viability of the Prince Rupert grain terminal.

MR. PASZKOWSKI: The Prince Rupert terminal is the most efficient terminal we have in operation in Canada at the present time, without any doubt. It's been a major benefactor, particularly for the northern part of the draw area, as far as a grain draw is concerned. So it's been very beneficial, particularly to Alberta. Alberta's the only province that really has agriculture from the very southern extremity to the very northern extremity. As a matter of fact, we have fairly productive agriculture in the northern part of the province. The draw area for Prince Rupert is an area, I guess, about halfway between Calgary and Red Deer and north, whereas the rest is the draw area for Vancouver. So it is an important port for Alberta agriculture.

The value, of course, of the port has changed somewhat with the removal of the WGTA, because with the removal of the WGTA it is now more expensive, something in terms of \$5 a tonne more expensive, to move grain to Rupert than to Vancouver. So what's been ongoing is negotiations between the railroads, the Wheat Board, and the port authority to try and find some way of consuming this \$5 so that indeed it's not an additional charge to those who are using the port. The negotiations are ongoing, and certainly if there is anything that anyone is able to do with the federal government, or the Wheat Board particularly, to see that this comes to some form of a successful conclusion, that would be very, very helpful.

The one downside of Prince Rupert is that the taxes are exorbitant, quite frankly, relative to taxes further south in Vancouver. The taxes in Rupert – and that's been discussed with the city – are somewhere in the area of over \$3 million, I think, twice as high as Vancouver's. So that's another issue. The suggestion was that perhaps the Wheat Board should assume \$2, the railroad should assume \$2, and the city should take up the \$1 that make up that \$5 that makes the difference. I don't know.

Does that answer your question, Mike?

DR. PERCY: Yes.

THE DEPUTY CHAIRMAN: Just for clarification, Mr. Minister.

The purpose of this committee of course is to deal with the investments that have resulted from the Alberta heritage savings trust fund and the expenditures, in particular more the expenditures that happened in the past year. However, we have been quite flexible in our committee in allowing questions of a somewhat related nature to come, and we've maintained that flexibility and will continue to do so. It's at your discretion of course whether you wish to answer or defer or get back to us. That's quite appropriate. So we do look somewhat for your guidance as well. I think it's worked well within our committee so far, and we will continue with that.

MR. PASZKOWSKI: No, I don't have any problems.
The present status: is that what you're after?

DR. PERCY: My final question. When you look at the fiscal year '94-95, you've noted that the terminal itself is a low-cost operation and is the least-cost way of transporting grain from that catchment area.

MR. PASZKOWSKI: It's the fastest turnaround as well.

DR. PERCY: Could you give us a dollar sum of what the extra costs are related to the taxes, the port charges, and the ancillary costs of operation that are independent of the mill itself and the delivery system, those charges that are under the purview of either the local or federal government?

MR. PASZKOWSKI: Do you want them broken down? Is that what you're asking for?

DR. PERCY: Yeah.

MR. PASZKOWSKI: I don't have those. We'll have to get back to you as to the final breakdown, the exact breakdown. I can give you some general. It costs you a little more to move grain because of the distance factor to Rupert.

THE DEPUTY CHAIRMAN: What I would suggest, then, is that when you have that information, you pass it through the chair, and then we'll distribute it to all members of the committee. Would that be helpful?

MR. PASZKOWSKI: Sure.

THE DEPUTY CHAIRMAN: Okay.
Mr. Dunford.

MR. DUNFORD: Thank you, Mr. Chairman. Good morning, Mr. Minister and staff. I want to begin by apologizing that I was not here when the meeting was called to order. Like many of my colleagues we're up here for a couple of days, and we're just trying to simply do too much, and I didn't allow myself enough time for the meeting. I want to thank the deputy chairman for calling the meeting to order, probably very close to on time. He's showing further indication all the time that perhaps we should make him the permanent chair.

My questions this morning will hit two areas. One is Farming for the Future and the other is on irrigation. In terms of Farming for the Future, this research information that is developed, is it and how is it passed on to farmers?

MR. PASZKOWSKI: Just if I may, Mr. Chairman, we do have the information for you, Dr. Percy. If I may, please.

THE DEPUTY CHAIRMAN: Sure.

MR. PASZKOWSKI: Okay. The port of Prince Rupert charges, 35 cents per tonne, are about double that of Vancouver. I think Vancouver is 17 cents, the last number that I saw. So it's slightly over double that of Vancouver. The city of Rupert PRG property tax is \$3 million per year, which again is significantly higher than those being charged terminals in Vancouver. These negotiations are ongoing. Again, as far as transportation and other costs, we'll try and get back to you with further information.

10:20

DR. PERCY: Thank you very much.

MR. PASZKOWSKI: The question regarding Farming for the Future and the transfer of the information is very key, very important, because the greatest research in the world doesn't do anyone any good unless it's transferred into friendly hands, users' hands. I'll ask Dr. Christian to supplement my response.

We're doing more and more applied research, as well, where the information is actually being generated right within those who are in need of that information. For example, the applied research farms and things like that are proving to be increasingly more significant as far as information transfer is concerned. Publications, ongoing publications, are key, and as I mentioned, I think it is 11 percent of the budget that is spent on publications where we transfer the information. The farm demonstrations: we supported more than a thousand demonstration projects. So the applied portion is very, very key. There is a basic importance here that those who are in need of the information are the ones who obtain it, because you can do all the research in the world, as I mentioned, and unless it gets into the right hands, it doesn't provide any useful function.

Dr. Christian.

DR. CHRISTIAN: Yes. Thank you very much. We also publish the reports of all the projects and put them in the regional libraries. To date, if you were to add up all the pages, there are somewhere around 20,000 pages since the beginning of the program in 1979. We, as well, have an electronic system that has the results of projects as well as the objectives for new projects in that database, and it's now got around 2,000 projects in it. The database is now part of the farm basis management information network, FBMI net. This is accessible by modem. You just call up 438-2209, and you can access our computer from yours and search through. There are also ways of getting technology out through the commercial system. For example, if a new variety of barley or canola is developed in part with our funding, then the sale of that variety is one way to have technology put into place. Similarly, if it's a new vaccine, they say, "Oh, that vaccine gets the technology out there."

The other interesting thing that's happening is with our matching grants program, where we've put considerably more emphasis on matching funding. The company or the organization that's providing matched funds is very interested in the results of the technology because they're helping to pay for them directly, so they are also involved in making sure the results are made use of.

Thank you.

MR. DUNFORD: Okay. A supplemental, then, to that. Is there any sort of cost-benefit analysis then done in terms of the types of research projects that have taken place and have been passed on as to what benefits the province has gained as a whole on the expenditure of these dollars?

MR. PASZKOWSKI: Yes, certainly. Unless there is some evaluation done, you really don't know whether you're on the right track or not. I can certainly allude to that from my previous experience when I chaired the Canola Council of Canada. Over a third of the revenue generated with the Canola Council of Canada was spent on research. Ultimately, we noticed that some of these researchers were basically professional researchers, and they were simply building programs around their own abilities. Whether anyone needed that information or whether anyone used that information or not really didn't matter. It satisfied the particular researcher's needs because that's where his strength was, and that's basically what he was working on.

This was moving along very merrily until suddenly we sat down and analyzed what the benefits were, and through that evaluation we suddenly found that we were getting off in tracks that really weren't of any benefit to the industry whatsoever. So there was a major review done and major thrust done. Certainly this has always been recognized through the Farming for the Future component: there has to be ongoing evaluation done. That's done through ongoing consultation with the industry, and I don't think there's a better way than this process. Had the Canola Council been doing that all along, they would have saved themselves millions of dollars in product research. Ultimately, they're back now where their research is being evaluated on an ongoing basis. I'm sorry I'm referring to that. Farming for the Future has always done that, and that's why their successes have been measurable, far better than a lot of other research.

DR. CHRISTIAN: I'd just like to add that every few years we do a particularly good job of evaluating the economic impact. The last one was in 1992. We hired a consulting company to examine just 20 of the projects, and they advised us that the benefit back to the economy was \$455 million over 10 to 15 years. Now, the total in those projects was just \$7 million. So there is a substantial return.

We also see benefits directly from the program of people being hired to do the research and certainly benefits in terms of greater co-ordination and co-operation resulting. In addition to that, we evaluate each project as it comes in for whether or not it's met its objectives. The problem, then, in terms of an economic impact is that you need to wait for several years until the results are used in the industry and see just how beneficial they are. So we'll be looking at another study like the one I referred to quite soon.

Agriculture Canada has recently done one on wheat, and it's shown to be around a \$400 million a year return because of wheat research done in their station. That work was done by Professor Kurt Klein at the University of Lethbridge, who is becoming quite good at these kinds of evaluations.

THE DEPUTY CHAIRMAN: Third question.

MR. DUNFORD: You're looking at me as if you think I snuck that one in, Mr. Chairman.

THE DEPUTY CHAIRMAN: I noticed the pride that rolled up within you as the University of Lethbridge was mentioned.

MR. DUNFORD: The third question involves the irrigation rehabilitation expansion program. Certainly as an MLA from southern Alberta I realize the tremendous importance of the irrigation system. We at times have difficulty articulating that importance to other residents of our province. We've started to use the analogy of a primary highway system because that allows us to go from jurisdiction to jurisdiction to build sort of a highway system

that we feel we need. I would use the export highway as a prime example of that. However, we don't have that same system, at least to my understanding, within irrigation because we have these irrigation districts. I understand and believe that some districts have completed more rehabilitation perhaps than others. Does the interdistrict allocation formula take these kinds of things into consideration? Probably, like a highway, an irrigation system is only as strong as the weakest link in the system.

10:30

MR. PASZKOWSKI: Well, I don't know if you're familiar with the structure and organization of the Irrigation Council. The council, of course, is a group of members, sort of the peers of the various irrigation – I think there are 13 irrigation districts. From those 13 irrigation districts there is a group selected to represent these irrigation districts to sort of put together an overall plan. Each irrigation district is operated in a bit of a different mode of operation and has different priorities and different objectives, and the council sort of puts it all into one big mold. In some cases some irrigation districts have placed higher priorities on maintenance than have other irrigation districts. Consequently, we do have some irrigation districts that are further advanced as far as maintenance is concerned than other irrigation districts. Other irrigation districts chose to expand their ability to provide service to more farmers rather than maintaining the existing infrastructure. The Irrigation Council is the group that sort of puts this all together and puts together a general plan for the 13 districts, and it's this council that provides the direction as to where the money should be most suitably spent. Having said that, each irrigation district does its own priority setting though. Now, I don't know if that answers your question entirely or not.

Brian, did you want to make any comments?

MR. COLGAN: Certainly the formula that was used in the fiscal year that we're talking about had quite a heavy component that reflected percent complete. In other words, those districts that had a lower percent complete received proportionately more funding. That was a formula that the Irrigation Projects Association, the lobby group for all the districts, worked out and developed and provided as a recommendation to government, which was accepted. So that was the formula that was used then.

MR. DUNFORD: Thank you.

THE DEPUTY CHAIRMAN: Debby Carlson.

MS CARLSON: Thank you, Mr. Chairman. Good morning, gentlemen. Mr. Minister, in your opening comments on the Prince Rupert grain terminal you talked about the \$4.25 million per year, a principal repayment that the fund is entitled to, and an interest payment of \$17.3 million made in the '94-95 year. In the annual report those figures are reported as \$4.3 million and \$17.6 million, respectively. Can you tell us what the difference is?

MR. PASZKOWSKI: What were the numbers again, please?

MS CARLSON: You said that \$4.25 million was the principal repayment that the fund's entitled to. In the annual report it says \$4.3 million. That would be on page 27 under policy investments.

MR. PASZKOWSKI: Rounding off numbers, I would expect, is what we've done here. What was the other?

MS CARLSON: I believe you said that \$17.3 million was the interest payment that was made in the '94-95 year, and in the annual report it says \$17.6 million. That's the paragraph below the first one on page 27 of the annual report.

MR. PASZKOWSKI: I would assume the annual report is the more accurate one. That would be audited; therefore, I would assume that's the more accurate one.

MS CARLSON: So there's no reason for the discrepancy then; like, there really isn't?

MR. PASZKOWSKI: It's not a major . . .

MS CARLSON: Okay.

My second question then. In the annual report it talks about \$34.3 million of interest that was accrued and capitalized but not recorded on the heritage fund books during the four years after construction. It's not recorded because you don't anticipate ever being in receipt of those moneys?

MR. RADKE: That's an accounting question I'm not sure we're capable of answering, but we'll certainly get you the answer.

MS CARLSON: Sure. That's excellent.

My final question is with regard to grazing leases. Can you tell us how those are assigned to people throughout the province?

MR. PASZKOWSKI: Grazing leases? We're not dealing with grazing leases. We deal with grazing reserves only.

MS CARLSON: I do believe that was a question that was asked of you last year and was handled by this committee.

MR. PASZKOWSKI: We don't deal with grazing leases under the heritage trust fund at all.

THE DEPUTY CHAIRMAN: Maybe, Mr. Minister, if you could explain to the committee the difference between grazing reserves and grazing leases.

MR. PASZKOWSKI: Grazing reserves are a rehabilitation program for the 21 grazing reserves that we have in the province. This is land that the government has assembled, maintained, and allowed – there is a fundamental difference between them and grazing leases.

Grazing leases are something that an individual leases from the government. This grazing reserve is land that is accumulated, where cattle producers basically turn their cattle onto this huge expanse of land. What we use money from the heritage trust fund for is to maintain. Most of this is done in northern Alberta because that's where tree growth comes forward significantly and is ongoing. As far as grazing leases are concerned, we don't have any funding whatsoever in the heritage trust fund.

MS CARLSON: So would you say, then, that that question asked last year was out of order?

MR. PASZKOWSKI: I don't know the question last year.

THE DEPUTY CHAIRMAN: If I could just interrupt for a minute. Even last year and this year we are being quite flexible in our questions and answers. I think that if the minister answered last

year, he is not obligated to answer this year. I haven't seen the *Hansard* from last year to know if that question was asked or not, but certainly this is an appropriate question for question period, which I know you're boning up on for the session which is soon to be upon us. So we'd ask if you'd save that for that time.

MR. PASZKOWSKI: There is no funding from the heritage trust fund that goes to grazing leases. As far as the heritage trust fund is concerned, no, there is no funding that goes to grazing leases.

THE DEPUTY CHAIRMAN: Mr. Amery.

MR. AMERY: Thank you, Mr. Chairman. Good morning, Mr. Minister, gentlemen. This is back to Farming for the Future. I wonder if you could explain how our Farming for the Future research proposals are evaluated and who evaluates them.

MR. PASZKOWSKI: Well, again, the evaluation, as we mentioned, is very key and very critical and very important. As Dr. Christian has mentioned, one of the evaluations was done back in '92 by a consultant firm that was hired to do the evaluation. I think Dr. Christian quoted some figures where for the \$7 million invested there was a return of 400 and some million dollars as far as benefits are concerned.

Another is just in discussions with the users. We were in constant information discussions with the users. Consequently, they actually helped provide us. There's also a Farming for the Future committee that brings forward, analyzes, and assesses the projects as they come forward. Again, the assessment is ongoing. The assessment is done through the industry itself. As well, periodically we hire consultants to do assessments.

Dr. Christian.

DR. CHRISTIAN: Thank you. I think we're talking a bit as well about when we receive proposals, how we choose the ones that are most appropriate. If I could just quickly review that. The institute has set up six committees which have producers and other people from the agricultural business sector, research scientists, and government people. So about half of the membership is from the private sector. They receive the proposals in six different areas, review them, and prioritize them in terms of their potential benefit as well as whether or not the research design is adequate. Then those recommendations go to the board of directors for a decision. Within the budget allocation we're able to fund a percentage of the projects that are presented potentially for funding.

On the on-farm demo program we have a similar process done in each of the regions, where we have a committee of half farmers and half department people. Those committees review and decide on the projects to be funded if they're under a certain amount. If they're over that, then they come to the board for a decision. In the evaluation of them as they begin, that's how it's done.

We also have a strategic committee that sets the priorities every year, and it also has a majority of private-sector people on it. So the industry is very much involved in deciding which are the best projects to fund.

10:40

MR. AMERY: Thank you. I wonder if you could tell us who is eligible to apply for research funding through the Alberta Agricultural Research Institute.

MR. PASZKOWSKI: Basically any qualified agriculture or food researcher is eligible for application. The applications have to be

submitted before November 1 of the year. If you're in the business of agriculture, if you're in the business of food development, you are eligible to qualify for assistance through this program.

Dr. Christian, I don't know if that covered it well enough or not.

DR. CHRISTIAN: Yes, sir. I think I'll just maybe expand a little bit. Universities, government research stations, as well as private-sector companies are all eligible as long as they've got the people and the facilities to do the job.

MR. AMERY: My last question. The grazing reserves program will be completed by the end of the 1996-97 fiscal year. Has this program been able to meet the demand for grazing, and will your department be asking for more money from this committee?

MR. PASZKOWSKI: No. This will be the last funding from this committee. What we're doing is looking at privatizing the grazing reserves, and ultimately the people who are using the reserves will look after not only the management but the ongoing funding of the maintenance. We'll still supervise the maintenance of the program to see that it gets done and see that there is money allocated to maintain, because if you don't, you run into the situation where the natural tree growth would eventually take over. Consequently you lose a lot of animal units as far as feed availability is concerned as soon as you get the tree growth. So that has to be put in place. It's a fundamental. The ongoing maintenance is something that has to continue to keep happening.

MR. TACKABERRY: Basically, the provincial grazing reserves as they exist today are pretty much breaking even in terms of the operational costs. The intention would be to charge enough to the users so that there would be anywhere from a \$2 to \$3 per animal unit monthly charge that would be allocated, depending on what part of the province they're in, and that fund would keep recycling so that the long-term maintenance of them would be continued, paid by the patrons themselves, those who are receiving the direct benefit.

MR. AMERY: Thank you.

THE DEPUTY CHAIRMAN: Danny Dalla-Longa.

MR. DALLA-LONGA: Thank you, Mr. Chairman. Mr. Minister, I have a couple of questions on the Agriculture Financial Services Corporation, specifically the recommendations made by the Auditor General in his report of '94-95. Just in general, he expressed some concern about the collection practices, the reporting practices, and more importantly the ability to measure the success of these programs. There's an awful lot of money being lent out, particularly under the beginner farmer program, and some of his comments were that there were "inadequate accounting systems . . . preventing the Corporation from properly accounting for interest accrued on loans," and those sorts of things, just a general concern about that practice. Could you comment on what, if anything, is being done on the Auditor General's recommendations?

MR. PASZKOWSKI: Well, we've taken them seriously, of course, and we're trying to find ways of better accountability. Certainly we've made some changes to the computer programs and implemented changes to the accounting methods to comply with the requirements and become generally more in line with acceptable accounting practices. The changes have been implemented effective

April '95, and it's expected that the AFSC's statements will comply with the principles that the Auditor General has asked for. So overall we feel that we're complying with the requests of the Auditor General.

Bob, do you want to jump in?

MR. SPLANE: Yes. I think it was a period of about three years that that particular note was in the Auditor General's report, and it was as a result of changes on the part of the Institute of Chartered Accountants on how interest should be recognized. We indicated that we would make the changes as soon as we could afford it. We've now privatized our systems area. We've gotten to a point now where we can afford the change, and the change has been made. So that particular reservation on the account should not be there in the current fiscal year.

With respect to the whole area of measurement, that I think was mainly related to the gross revenue insurance program that we administered, and indeed there were difficulties in measuring what the outcomes were. That program will no longer be in effect. There will be a new program in place, the farm income stabilization program. In future business plans there will be outcomes indicated as to the means that we will use to measure the effectiveness and the outcomes of that program.

MR. DALLA-LONGA: Mr. Chairman, just by way of clarification, on page 83 of the Auditor General's report in fact he did specifically talk about the beginning farmer program and made recommendations regarding the ability to define measurable objectives for the program against the performance and costs of the program.

My second question, Mr. Minister. Many of these programs in here, the lending and the collection and the whole cycle, are sufficiently large. Why wouldn't consideration be given to privatizing in this particular aspect, the Agriculture Financial Services Corporation?

MR. PASZKOWSKI: That consideration has been ongoing and one that certainly we are seriously considering, remembering that we do have a very effective and very efficient program here. It'll be interesting to see if private enterprise will be able to compete. We just recently made the offer to private enterprise. The offer basically is that it's got to be as good as, it's got to be guaranteed that it'll be available, and it has to meet the criteria that we are able to deliver the program with. They have to do as well or better in order to achieve that. It will be interesting to see how they perform.

MR. DALLA-LONGA: So what you're saying, then, is that proposals have been requested?

MR. PASZKOWSKI: The challenge is there for private enterprise, yeah.

MR. DALLA-LONGA: Thank you.

THE DEPUTY CHAIRMAN: Yvonne Fritz.

MRS. FRITZ: Thank you, Mr. Chairman. Good morning, Mr. Minister. I'm interested in the area Farming for the Future. Even when I read the title, I thought it was quite a motivational title: Farming for the Future. I thought it gives hope to our youth that we hear from so often in different areas, whether it's in medicine or education or whatever, that they don't have a lot of hope for the

future. Now that this capital projects division is ending, I wonder if there's any process for funding to continue for the research and demonstration. I notice there are a number of projects in '95 alone that you've gone ahead and conducted.

10:50

MR. PASZKOWSKI: Well, as far as research in our overall budget is concerned, we've actually put \$4 million more into research. So research is a very, very valuable component of our objectives as far as agriculture is concerned. Remember that we actually trimmed our overall budget something like 23.5 percent. In the process of trimming we've actually enhanced our research budget. So overall we're putting more money into research, and we will continue to focus on research because that's our future. That's really what we have to build off. It's not our objective to start cutting back as far as research funding is concerned.

Dr. Christian, do you want to jump in?

DR. CHRISTIAN: Yes. The specific funding for this program has been moved to the general revenue fund for the subsequent fiscal year, the one we're in now.

MRS. FRITZ: I think that's good news. Thank you.

Also, I wonder if some of the research and demonstration projects lead to higher technology and higher costs so that actually it's causing a barrier to our young people to stay in the farming community and continue with the farming way of life. You have to realize that I'm not in the rural area, that I'm in the urban area, so I don't understand a lot of where it leads to. Does that lead to that at all?

MR. PASZKOWSKI: No, it doesn't. Well, higher technology is the future of agriculture really. It's becoming increasingly more and more technical. The information transfer has to be there at a very rapid pace because technology is moving just as rapidly in agriculture if perhaps not more so than it is in any other industry because of its diversification. It's such a broad, broad industry. So research and information transfer are very key to its successes. More increasingly and more so we're competing in a global market as far as production is concerned. We have to be able to compete with the world as far as cost-effectiveness is concerned, and that's becoming increasingly more so. In Alberta 65 percent of everything we produce now leaves the province. So obviously that is a true indicator that we have to compete with the rest of the world because we're into export. As far as the agriculture industry is concerned, I can think of no other industry that consumes new technology and new technical information as rapidly as the industry does. So, no, I don't see it as an inhibitor; I see it as something that really is going to build and support.

One of the reasons we're doing well in Alberta is because of programs such as Farming for the Future. Our industry, as I pointed out, has moved up very, very significantly in the last short time, and we have become the dominant province in agriculture. It's through the information transfer. It's new technology. It's the fact and an understanding. One of the major problems that we do have, though, is that our regulatory processes are holding us back. Rather than being able to utilize all of the information base and be a more competitive force as far as the global market is concerned, our regulatory process has a tendency to hold us back. It's very unfortunate and something that we've got to change or we're going to thwart the initiative of a very, very productive industry and an industry that has a window of opportunity to become a dominant industry in this province.

Dr. Christian, have you any comments?

DR. CHRISTIAN: Yes. I think the only thing I would add is that the application of technology has changed agriculture in the sense of being able to manage very labour-intensive, difficult jobs a whole lot easier than before. Where people really didn't want to get in there and do an awful lot of labour, they're able to use equipment and systems that really relieve that. So it certainly has made it a better working environment than before.

MRS. FRITZ: Thank you.

MR. PASZKOWSKI: Mr. Chairman, we have the answer to the hon. Member for Edmonton-Ellerslie.

THE DEPUTY CHAIRMAN: If you could provide that answer after Yvonne has a chance to finish her last question and then come back to that, please.

MR. PASZKOWSKI: I'm sorry. Okay. Thank you.

THE DEPUTY CHAIRMAN: Yvonne, your third question.

MRS. FRITZ: Thank you, Mr. Chairman. Well, actually this last question may be an unfair question; I don't know. With almost 200 projects and demonstrations being funded this year, I wonder if you could tell me what you would view as being the most significant research project that actually had a spin-off to affect the future of our young people in farming for this year.

MR. PASZKOWSKI: Well, that's a difficult question.

MRS. FRITZ: I know they're all important. I know that you'd view it that way.

MR. PASZKOWSKI: They're all important. I think the difficulty that I'd have in answering that question is we have such a diversified industry. We're very fortunate, though, in that we have a very balanced industry. Really half of our industry comes from the meat sector; half of the industry comes from the other component of agriculture. In that sense what's important for one sector may not even affect the other sector. So because of our balance we really have to be careful that we deal with the overall importance. I would find it difficult to pick and choose any one particular element and put a priority over and above. Although in fairness the committee does do that because we never have enough resources to cover all the research that could be done out there. Consequently, that's why we have the committee that's structured and put in place: to sort of prioritize the most important elements. They all have a degree of importance, and I wouldn't want to be the one to sort of second-guess the committee that's in place.

DR. CHRISTIAN: We could provide you with a list of the projects that were funded in this '94-95 period and perhaps indicate some of those that might respond to your young people perspective.

MRS. FRITZ: Thank you. I'd appreciate that.

THE DEPUTY CHAIRMAN: Now, Mr. Minister, if you would like to add an answer to a previous question.

MR. PASZKOWSKI: Yes. That was from the hon. Member for Edmonton-Ellerslie.

MR. RADKE: It was relative to the accounting question dealing with the treatment of capitalized interest. I'm certainly no accountant, so I need to be careful, but it's my understanding that it's in accordance with generally accepted accounting principles to not capitalize interest once a loan has achieved some status in terms of whether or not it's actually collectible. The issue was dealt with in detail by Mr. Valentine in his appearance before this committee on December 14, on pages 53 and 54.

THE DEPUTY CHAIRMAN: Okay. Thank you for that.
Now we move to Peter Sekulic.

MR. SEKULIC: Thank you, Mr. Chairman. Good morning, Mr. Minister, gentlemen. Mr. Splane, I will get back to you on that request that I put forward to you in November, and thank you for returning the call.

My question this morning pertains to the beginning farmer program. Now, I understand there are approximately 9,000 loans currently outstanding. If I'm wrong, you can correct me on that. I'm curious to know what the average size of a loan in this category is.

MR. PASZKOWSKI: The average size of loan, just briefly, is in the area of \$80,000, if that's your question.

MR. SEKULIC: Yeah. That's the first then.

I'm just wondering: is there a pattern, or are they disbursed fairly equally across Alberta? I know that earlier you made the comment that agriculture was from the northern to the southern extremity across Alberta. I'm just wondering: have you found clusters of loans being issued to different regions within Alberta?

MR. SPLANE: I think in the current market, if that's what you're referring to, it will depend on the kind of farm being financed obviously. There are more intensive-type operations that take more capital than others, and we encourage beginning farmers to sort of lease their way into the business if they can rather than taking on huge debt loads. At the present time we are experiencing a fair demand for our lending. I guess if there's one area in the province that is not experiencing as much demand, it would be where there was drought last year and where there are people who are suffering from the downturn in the cattle market, particularly cow/calf operators. So we won't see as much demand coming there for new operations, but we may have some pressure in terms of our guaranteed loan product for guarantees where there is pressure as a result of the livestock prices being much lower.

11:00

MR. SEKULIC: My final question is pertaining to the loan monitoring that the Auditor General referred to. He suggested that there has to be better attention to loans to borrowers who are experiencing loan repayment difficulties. I know the minister earlier commented that the computer system has been modified to account for some of this and to deal with it. The specific question I have is: do you have a figure of what percentage of your total loans, farmers who have borrowed, are experiencing difficulties in repaying their loans?

MR. PASZKOWSKI: Well, somewhere in the area of 1.6 to 1.7 percent, as far as those that are late in making payments. It isn't a significant percentage at the present time. If you get into a situation where you have bad weather, get into a situation where you have depressed prices, of course you're vulnerable, you're exposed. That's the risk that's taken.

Certainly the grains industry is having a resurgence as far as pricing is concerned. We do have an area of Alberta, the northeast area, that's had a fairly ongoing drought over an extended period of time, and obviously the pressures will be greater in those types of situations than they will be where the weather has helped.

As Mr. Splane has mentioned, the cow/calf operators will have some new pressures that they haven't had to deal with in the last 10 to 12 years because of the decreased prices in that particular element of the industry.

As far as answering your question is concerned, it's somewhere in the area of – and it varies month to month; nevertheless it's fairly consistent – 1.4 to 1.7 percent for the year.

THE DEPUTY CHAIRMAN: Howard Sapers.

MR. SPLANE: Could I supplement that question . . .

THE DEPUTY CHAIRMAN: Certainly. Please.

MR. SPLANE: . . . and a previous one, with respect to the Auditor General's concerns that he expressed. This related more to some of the field audits. We have loans officers that are in place and have been in place for some time who are fairly current with their customers. Some of them weren't documenting their files to the extent that the Auditor General would like to have them document their files. They were carrying it around in their heads. So that was part of the comment.

With respect to the previous comment and whether or not we were able to measure the benefits and the outcomes with respect to the beginning farmer program, I guess we've had a little bit of a debate with the Auditor General's office on this. It's a question of whether or not we're using a large enough sample as we monitor how successful the program is. Our sample has been about 150 beginning farmers who provide us with very detailed annual statements, which we then compare to the average throughout the province. What that reveals to us is that those beginning farmers are as efficient if not more efficient than the average throughout the province, but no surprise to anyone, they carry a much higher debt load. So that's where they have the risk.

In our discussions with the Auditor General – and we're continuing – I think it was more a question of the size of the sample that we were using and whether or not we could really come to a fairly firm analysis of the outcomes and whether or not that analysis that we were giving was accurate enough for his particular needs. I wanted to go back to your question and just say, yes, we've had discussions and they're ongoing.

THE DEPUTY CHAIRMAN: Thank you.
Howard Sapers.

MR. SAPERS: Thank you, Mr. Chairman. Mr. Minister, I want to go back to the Prince Rupert grain terminal first for just a minute or two. The Auditor General made it clear in his comments before this committee that the reason why the \$34.3 million of accrued interest wasn't recorded is because it's not collectable. In fact, the Auditor General and his staff went further in their response to queries on this matter, that one of the reasons why you don't capitalize that kind of interest in these circumstances is when a loan goes into the troubled category. So my question to you is: do you agree with the Auditor General's assessment that the entire 119-odd million dollars that's outstanding in the loan is in trouble and in fact we may not see that loan being recovered at all, let alone the \$34.3 million of accrued interest?

MR. PASZKOWSKI: Well, I'd given a bit of an overview of the Rupert situation. What we require, of course, is to be able to sit down and negotiate a rate that's going to be competitive, because if you have a port that's operating noncompetitively relative to other ports that are operating costwise, of course you've got a problem. It's very, very simple to determine the fact that you do have a problem. There are ongoing negotiations now to find a way to make Rupert competitive with the other ports. If indeed it continues to be competitive and if indeed it continues to be productive as far as volumes are concerned, that puts it in a different light. If we maintain the status as it is today, where we're a high cost relative to the costs involved in Vancouver and its competitors, then there are going to be some problems. It's a difficult question to answer. Those are answers that still have to be negotiated and have to be developed and have to be worked out.

Overall it is our hope that at the end of the day we're not going to move any grain through Rupert. That's our long-term objective and our long-term intention. Do all the value adding right here in Alberta so there is no need to be exporting bulk commodity: that's the long-term objective. That, of course, is pie in the sky, perhaps. Nevertheless, the return would be far greater within a year, within one given year, than what the write-off would be if we could do all the value adding right here in the province. That's what our goals and that's what our objectives are, and that's what our goals and that's what our objectives are going to continue to be, because ultimately the return on a higher valued product is considerably higher than just exporting the jobs to other parts of the world, which we do using the port facilities the way they are now.

MR. SAPERS: I'm not dealing with the latter part of your answer because I think that's a valuable but another discussion. In the first part of your answer I take it, then, that we can acknowledge that the \$34.3 million is written off, will not be collected, is no longer considered collectable. So we can consider that just to be a sunk cost; we're not going to get it.

Now, the \$119 million that's still outstanding on the loan. When you say that there are ongoing discussions in terms of making Rupert profitable at least in the short term before we get to where we're doing all the value added here in Alberta, did those discussions include a restructuring at all of the loan payments or the terms and conditions of the loan?

MR. RADKE: Just in respect to the first part of the question, I don't think there's any question from an accounting point of view that when a company cannot every year make its full interest and full principal payments, an accountant is likely to classify that as a troubled loan. From generally accepted accounting principles, as explained by Mr. Valentine, that's a reasonable but conservative accounting approach.

For our part we haven't given up on the potential of Prince Rupert to perform an important and valuable role in grain transportation. It may require some discussion as to how the debt load of the terminal gets handled in the future, but it's probably important to point out that on those 11 percent first-mortgage bonds we've had something like \$142 million worth of interest payments and principal of \$19.1 million paid since the terminal's been in operation. It may be troubled, but it's not disastrous.

11:10

MR. SAPERS: To clarify, Mr. Chairman, my question was: do the discussions that you referred to, Mr. Minister, include discussions

about restructuring the principal loan, the \$119 million that's still outstanding? You talked about ongoing discussions to make it profitable. Do those discussions include restructuring the loan?

MR. PASZKOWSKI: Well, we have to prioritize our discussions, and obviously you've got to put the plant into a productive position. That's our priority and that's our objective. Once you've got the plant in the productive position, then you get into the next phase of discussion. The operation has to be made productive really, and that's our key objective at the present time. Once we've got past that, then we get into the discussion of repaying the loan. You're not going to talk about repaying the loan when the operation is in the status at the present time. We've got to restructure that, and that's what our discussions are involved in.

MR. RADKE: It's fair to say that there have been no decisions made with respect to the restructuring of the outstanding loans to Prince Rupert Grain, nor have there been any commitments made at this point in time.

MR. SAPERS: Thanks.

THE DEPUTY CHAIRMAN: You're back on the list. You can start over.

MR. SAPERS: I'm back on the list?

MR. DALLA-LONGA: You can have as many as you want now.

MR. SAPERS: Geez, thanks. I can freewheel. Well, my questions on the beginning farmer program, Danny, have been asked, but I do have a question about the research end of it. I take it from an earlier answer that the research program will continue to be funded through the general revenue fund now as part of your own department's business plan. That's good news, but I'm wondering if you can tell me about the relationship between the programs that are continuing programs. The ones funded with the \$77 million that's been spent so far in Farming for the Future weren't all one-year, just short-term projects. Some of them were ongoing projects. Will any of them be continuing beyond the expiry of this initiative?

MR. PASZKOWSKI: There won't be any changes in this.

MR. SAPERS: What will the relationship be between those programs which were funded originally with heritage savings trust fund dollars and your new research agenda and the ministry of science and research? I'm trying to figure out what the relationship will be and the stewardship of those programs as they continue.

MR. PASZKOWSKI: Well, ultimately the objective of the new portfolio is to be able to access additional dollars – that's the objective – where private enterprise will become involved in providing matching money. From my perspective at least I see this as an ideal opportunity for enhancement of funding, and that's why I'm quite supportive and quite excited about some of the new opportunities that the new portfolio presents. From that perspective at least I think this is going to present us with new opportunities to expand the whole area of potential research.

As far as your question about the programs that are there for an extended period, there wouldn't be any major shift as far as the completion of those programs is concerned.

MR. SAPERS: All right.

The last question has to do with the private irrigation development assistance program. The program I believe has expired, and it was just shy of \$2 million that was spent in total over the life of the program. In your opinion, have all the needs been met for private irrigation assistance? As I understand this program, this is to provide assistance outside of the 13 irrigation districts; right?

MR. PASZKOWSKI: Yeah. This is for private irrigation throughout the province.

MR. SAPERS: Right. So was it \$1.7 million because it was an open-ended program and you just took all the requests that came in, or was \$1.7 million allocated, and you had to adjudicate which requests got support and which didn't?

MR. PASZKOWSKI: Well, last year, as I understand – and somewhere I've got the figures here, if you'll bear with me – I think there were only four applications. Correct me if I'm wrong, Brian. We had estimated \$407 million in the budget, and there were only applications for \$250,000. [interjection] No, I'm wrong. The budget was \$250,000 and the expenditures were \$136,000, yes. So the applications didn't even fulfill the amount of money that was budgeted. This has been a successful program as well. Again, that hasn't been a problem, that we haven't been fulfilling the amounts of requests.

MR. SAPERS: So the need for private irrigation assistance, in your estimation, has been met. We're not looking at, for example, as you've done with research, transferring that line item into your own departmental plan and accessing funds through general revenue to support these kinds of initiatives?

MR. PASZKOWSKI: It's in the GRF now.

MR. SAPERS: Okay. It's in the GRF now, but money that was budgeted through the heritage savings trust fund wasn't entirely accessed. So could you explain to me why that heritage savings trust fund money wasn't spent or what you based your line item in your department business plan on?

MR. PASZKOWSKI: There weren't sufficient applications to spend the money. There were only four applications that came

forward, which weren't of a scope to consume the entire budget. That's why.

MR. SAPERS: Okay.

MR. COLGAN: Other factors have come into play. With the exception of the northeast part of Alberta there's been significantly more moisture the last few years. So that's discouraged people from making the huge investments that are required to bring new land under irrigation production.

The other factor that's come into play is that some of the infrastructure that we thought might be in place to make new water available for expansion hasn't yet come to pass. Projects like the Little Bow project and the Pine Coulee project haven't yet been constructed. So that development expansion that could take place in those areas hasn't been possible. The Oldman reservoir was delayed a little bit, and it's only now making new water available.

So those are other factors that have come into play.

MR. PASZKOWSKI: Plus we've had some wetter years as well. The need for water hasn't been as significant as it has been during a drier cycle. We've been cycling somewhat wetter than average in the last while. But when we're budgeting, as Mr. Colgan has pointed out, we have to anticipate that some of this infrastructure is going to be there.

MR. SAPERS: So you're saying that your departmental budget doesn't reflect unmet demand from the heritage savings program; it reflects your anticipation of some future demand.

MR. PASZKOWSKI: Well, that's the way all budgets basically reflect, is what's anticipated.

MR. SAPERS: All right. Thanks.

THE DEPUTY CHAIRMAN: Mr. Minister, I don't detect any further questions this morning. So we want to thank you and your staff for taking the time to appear before the committee.

As far as the committee is concerned, we'll reconvene at 1 o'clock when the Minister of Energy will be with us. So you are dismissed.

[The committee adjourned at 11:19 a.m.]