



Legislative Assembly of Alberta

The 27th Legislature
Second Session

Standing Committee
on
Public Accounts

Agriculture and Rural Development

Wednesday, February 11, 2009
8:30 a.m.

Transcript No. 27-2-1

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Second Session**

Standing Committee on Public Accounts

MacDonald, Hugh, Edmonton-Gold Bar (AL), Chair
Griffiths, Doug, Battle River-Wainwright (PC), Deputy Chair

Benito, Carl, Edmonton-Mill Woods (PC)
Bhardwaj, Naresh, Edmonton-Ellerslie (PC)
Chase, Harry B., Calgary-Varsity (AL)
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Drysdale, Wayne, Grande Prairie-Wapiti (PC)
Fawcett, Kyle, Calgary-North Hill (PC)
Jacobs, Bryce, Cardston-Taber-Warner (PC)
Johnson, Jeff, Athabasca-Redwater (PC)
Kang, Darshan S., Calgary-McCall (AL)
Mason, Brian, Edmonton-Highlands-Norwood (ND)
Quest, Dave, Strathcona (PC)
Sandhu, Peter, Edmonton-Manning (PC)
Vandermeer, Tony, Edmonton-Beverly-Clareview (PC)
Woo-Paw, Teresa, Calgary-Mackay (PC)

Also in Attendance

Olson, Verlyn, QC, Wetaskiwin-Camrose (PC)
Pastoor, Bridget, Lethbridge-East (AL)

Department of Agriculture and Rural Development Participants

Jim Carter	Senior Financial Officer
John Knapp	Deputy Minister
Jason Krips	Assistant Deputy Minister, Industry Development and Food Safety

Agriculture Financial Services Corporation Participants

Krish Krishnaswamy	Vice-President, Finance and Corporate Affairs
Merle Jacobson	Vice-President, Risk Management

Auditor General's Office Participants

Fred Dunn	Auditor General
Ronda White	Assistant Auditor General
Karen Graham	Principal

Support Staff

W.J. David McNeil	Clerk
Louise J. Kamuchik	Clerk Assistant/Director of House Services
Micheline S. Gravel	Clerk of <i>Journals</i> /Table Research
Robert H. Reynolds, QC	Senior Parliamentary Counsel
Shannon Dean	Senior Parliamentary Counsel
Corinne Dacyshyn	Committee Clerk
Erin Norton	Committee Clerk
Jody Rempel	Committee Clerk
Karen Sawchuk	Committee Clerk
Rhonda Sorensen	Manager of Communications Services
Melanie Friesacher	Communications Consultant
Tracey Sales	Communications Consultant
Philip Massolin	Committee Research Co-ordinator
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Diana Staley	Research Officer
Rachel Stein	Research Officer
Liz Sim	Managing Editor of <i>Alberta Hansard</i>

8:30 a.m.

Wednesday, February 11, 2009

[Mr. MacDonald in the chair]

The Chair: Good morning, everyone. I would like to call this Standing Committee on Public Accounts to order, please, and welcome everyone in attendance. I would like to note first off that Corinne Dacyshyn will be filling in as committee clerk for the first two meetings of 2009. Again, to refresh everyone's memory, you do not need to operate the microphones as this is taken care of by *Hansard* staff at the back. I would like to note to everyone that the meeting is recorded by *Hansard* and the audio is streamed live on the Internet.

Perhaps we can start. Quickly we can go around the table and introduce ourselves. We'll start with the hon. Member for Strathcona.

Mr. Quest: Yes. Dave Quest, MLA, Strathcona.

Mr. Fawcett: Kyle Fawcett, MLA, Calgary-North Hill.

Mr. Sandhu: Good morning. Peter Sandhu, MLA, Edmonton-Manning.

Mr. Denis: Jonathan Denis, MLA for Calgary-Egmont.

Mr. Drysdale: Wayne Drysdale, MLA, Grande Prairie-Wapiti.

Mr. Dunn: Fred Dunn, Auditor General.

Ms White: Good morning. Ronda White, Auditor General's office.

Ms Graham: Karen Graham, with the Auditor General.

Mr. Krishnaswamy: Krish Krishnaswamy, VP, finance, AFSC.

Mr. Jacobson: Merle Jacobson, vice-president of risk management with AFSC.

Mr. Knapp: John Knapp, deputy minister, Agriculture and Rural Development.

Mr. Carter: Jim Carter, senior financial officer, Agriculture and Rural Development.

Mr. Krips: Jason Krips, assistant deputy minister, Alberta agriculture.

Ms Pastoor: Bridget Pastoor, Lethbridge-East.

Mr. Chase: Harry Chase, Calgary-Varsity, and welcome to Laurie Blakeman's frosty Edmonton-Centre constituency.

Mr. Kang: Darshan Kang, MLA, Calgary-McCall. It's good to be back, and I would thank all the committee members, everybody, for their best wishes and support during the trying times. Thank you.

Mr. Jacobs: Brocyce Jacobs, Cardston-Taber-Warner.

Mr. Bhardwaj: Naresh Bhardwaj, Edmonton-Ellerslie.

Dr. Massolin: Good morning. I'm Philip Massolin. I'm the committee research co-ordinator, Legislative Assembly Office.

Ms Woo-Paw: Good morning. I'm Teresa Woo-Paw, MLA for Calgary-Mackay.

The Chair: Good morning again. Hugh MacDonald, Edmonton-Gold Bar.

Mrs. Dacyshyn: I'm Corinne Dacyshyn, committee clerk.

The Chair: To the members: may I have the approval of the agenda that was circulated, please. Moved by Mr. Kyle Fawcett that the agenda for the February 11, 2009, meeting be approved as distributed. All in favour? Seeing none opposed, thank you.

Item 3, approval of the minutes that were circulated. Mr. Chase. Moved by Mr. Chase that the minutes for the December 3, 2008, Standing Committee on Public Accounts meeting be approved as distributed. All in favour? None opposed. Thank you.

This, of course, comes to item 4 on our agenda, our meeting with the officials from Alberta Agriculture and Rural Development. Before we get started, I would remind members that the standing orders allow any member of the Legislative Assembly to attend and participate in our meeting, but only members of this committee can vote on matters before us, so please keep that in mind. Again, Mr. Knapp, welcome to our committee. We will be dealing today with the Auditor General's report of October 2008; the annual report of the government of Alberta from 2007-08, which includes the consolidated financial statements, the Measuring Up document on the business plan; and, of course, Agriculture and Rural Development's annual report.

With that, I would before we proceed remind members that Dr. Philip Massolin and his research team have provided very valuable research information to us in advance.

Please proceed now, Mr. Knapp. Thank you.

Mr. Knapp: Well, thank you, Mr. Chairman, and good morning, everyone. I'm pleased to appear before you today on behalf of our minister, the Hon. George Groeneveld, to discuss the 2007-08 annual report as well as the Auditor General's report for the ministry of agriculture and food.

Just a note on the name. You will recognize us today as the Ministry of Agriculture and Rural Development. That name was changed in the last fiscal year, when the new mandate appeared. For many years we were simply agriculture. Then we were agriculture, food, and rural development. We found that many of clients actually hung the phone up before we got that full name out over the phone, so we then changed to agriculture and food, and today we are Agriculture and Rural Development.

I'd like to begin by introducing the staff again who did introduce themselves: Jason Krips, our assistant deputy minister, industry development and food safety; Jim Carter, our SFO; Krish Krishnaswamy, vice-president with finance, AFSC; and Merle Jacobson, VP of risk management with AFSC. Along with myself they'll be available to answer any questions that you may have.

I'm going to skip the next couple of pages of my short text here and maybe move right into what I believe you may be interested in, and that's what happened in agriculture and what happened in the ministry during the 2007-08 fiscal year.

In short, in agriculture we had a mixed year. If you were in the crop sector, the odds are you had a very good year because crop prices were up and we had some good yields. If you are in the livestock sector, it's very likely you had a very poor year due to some severe depression in prices. If you were an agribusiness dealer on the crop side, a bulk fuel dealer or a fertilizer dealer, you, in turn, probably had a good year whereas, conversely, if you were a feed

manufacturer or maybe a practitioner at a rural veterinary clinic, you probably did not do well because the sector you were serving did not do well. Our food processing sector on average did have a good year. Their competitiveness continues to grow. We continue to see new products and very innovative products targeted especially at some of the newer niche markets beginning to appear, many of those as a result of having done developmental work through our food processing development centre at Leduc.

We saw a number of province-wide initiatives that continue to benefit Albertans. The ministry provided \$10.6 million in grant funding to the province's 69 agricultural service boards. Those boards have existed since 1945, and they've been just a wonderful opportunity to develop and expand a relationship between a provincial government and municipal level governments in a rural setting. Through those boards and their agricultural field men they manage weed control, our Soil Conservation Act, our pests act, and our Livestock Diseases Act in a way that provides just tremendous service to rural Albertans with a little bit of provincial funding behind it. Again, that was \$10.6 million in funding, and I think beyond any shadow of a doubt that rural municipalities believe that it's very, very useful funding to their programming.

Additionally, \$13.7 million in grant funding was provided to 286 agricultural societies. In Alberta we have three tiers of ag societies. They are the two big societies, Edmonton and Calgary. There are seven class A fairs: the Lloydminsters, the Red Deers, the Lethbridges, and so on. And then the real social fabric of rural Alberta, sort of the network and the infrastructure that holds together recreation, culture, and community gathering, is based on the facilities and the events managed by those 286 ag societies. That's where that \$13.7 million in grant funding went.

Two point nine million dollars was provided through the agricultural initiatives program to support 94 community initiative projects. Those projects range from something like if you're the Canadian Angus Association and this is the year the national event happens to be in Alberta, a grant to support some of putting that together, all the way to something as simple as putting plumbing in or renewing the kitchen facilities in a rural hall and almost everything in between.

We opened the first Canadian incubator for food processors in Leduc. The idea of the food processing centre has always been to provide science and small-scale testing machinery on new food products. What we found was that there was a valley of death beyond that testing and building the product phase into long-term commercialization, and that's what we call the short-term commercialization. The purpose of the incubator was to assist fledgling companies in an environment where they had access to the business skills and the science skills of our food processors to actually get up and running and be successful. Once they're successful, we sort of gently push them out the door to make room for new companies to go into that incubator. Work done by businesses in the incubator will lead to the creation of a number of new food products and new food technologies. We're seeing some great successes there.

8:40

Through the federal-provincial specified risk materials program we continue to help the province's cattle industry to comply and adapt to the enhanced feed ban. As you may recall, when bovine spongiform encephalopathy appeared on May 20, 2003, we had to move to stronger measures to remove the nervous tissue from any feed supplies so that we couldn't get cross-contamination. What the British and the Europeans found is that you got sort of two waves of BSE. The first wave was as a result of it being in the feed supply of ruminant feeds. Well, Canada very wisely banned that in 1997, banned feeding any ruminant materials to ruminants. What the

British found is a second wave on the basis of cross-contamination from that material in hog feed or dog food or chicken feed. None of those animals get BSE, but occasionally those feeds would get mixed in with feed intended for beef cattle. As a result, you got a very small second wave.

We've moved in Canada very aggressively, compared to international rules, to remove all specified risk material – which is the brain, the spinal column, the dorsal ganglia, the eyeballs, the tonsils, the skull, and a small part of the intestine – to ensure that those materials do not get, from a food safety perspective, period, into livestock feed. That's been very successful, and as a result Canada has a very low BSE level.

In the 2007-08 fiscal year \$12 million was provided for infrastructure and equipment to support SRM, specified risk material, segregation and destruction and to offset increased costs at provincial abattoirs and to continue to support the very needed SRM research where we can take this stuff that we're removing and turn it into something of value rather than a waste product that has costs added to it for processing. To date 24 countries have reopened their borders to Canadian products because of those aggressive moves. We have a status in the world under the Office International des Épizooties, which is the World Organisation for Animal Health, of controlled status, which means that our products are acceptable to the world.

We spent \$15.9 million in irrigation and rehabilitation grants. The purpose of those is to take that extensive canal system, that serves about 1.4 million of the 1.7 million irrigated acres we have, that provides water for irrigation to farms, water to a number of towns, water for recreation and for wetland development, and water for storage for emergency purposes and to make sure that there are minimal water losses. A lot of that money was used to reline canals to reduce seepage, and some of it was used to convert canals into pipelines.

We also worked with partners, Climate Change Central and others, to design the on-farm energy efficiency program, that involves an on-farm energy assessment, and we're finding many producers coming back to us saying: I've saved \$10,000 a year in electricity and natural gas costs on my larger farm as a result of more efficiently applying my energy needs.

The environmentally sustainable agriculture program provided more than \$110,000 in funding to processors who committed to projects that reduce environmental impact. These are things like cogenerating, reusing the heat created in your processing to heat, maybe, a storage area, or better filtration of waste water so you can recirculate water. Just adding environmental efficiencies to the system.

We've made very significant progress in the whole area of traceability. Of course, traceability is a key component of animal health disease status; tracing out BSE, for example. It's also a key component in the consumer's mind of food safety: where did that block of cheese or that steak come from? I want to know all the way back to the farm how it was produced and what went into it so that I as a consumer can make intelligent food choices for my family. We played a significant role in the development of an industry-endorsed implementation plan for the national agriculture and food safety traceability system, co-chairing that. We'll hear more about that over the next few months.

We introduced the ag stability program. This program is a successor program to the old CAIS program, which many you will have heard about. Basically, it's designed to handle normal cyclical variation in agricultural income.

We also enacted the targeted advance payment program that allowed hog producers timely access to funds under the ag stability

program. Producers received \$175.6 million in transitional funding under the Alberta farm recovery plan to address the economic strain brought on by the rising costs of fuel, feed, and fertilizer.

We took another step toward a more effective and efficient livestock industry with the introduction of Bill 47, which amends the Livestock Identification and Commerce Act. That basically provides better security provisions for livestock producers who are trading livestock either directly, through a dealer, or through an auction market so that they and people from out of province as well can do business with more certainty and assurance in the Alberta situation.

We also went through some fundamental changes and some transformational changes in our ministry, and we're in the midst of completing those. The ministry has worked hard to reach out to rural Albertans from a connectivity level. As a result, in this fiscal year as a follow-up to some of that discussion we've reopened 13 rural offices so that services are more directly available to Albertans on the front line.

Mr. Chair, I'd like to spend two minutes on the financial results and then conclude if I could. Our consolidated revenues of \$470 million and consolidated expenses of \$878 million are reported in our financial statements. Those created a net operating result of expenses exceeding revenues by \$409 million, and that's \$9 million lower than budget. In 2007-08 ministry revenues were \$470 million. That's 11 per cent lower than last year, and that's a \$61 million decrease from '06-07 and \$189 million lower than budget.

Part of the variability you're seeing in these budgeted versus actuals is the fact that Ag Financial Services Corporation is in the risk management business, which includes crop insurance and income stabilization programs. Those are dependent on world commodity prices, and in the year you develop your budget, you don't know what the downstream effects of the world economy, commodity prices, weather, et cetera, will be. So they tend to be variable. They're based on models. The models have been remarkably accurate within a zone, but there is natural variation.

Revenues were lower than budget mainly because of lower than expected transfers from the federal government resulting from the restatement of prior year CAIS over accruals.

Ministry expenses were \$878 million, down considerably from last year, about \$200 million lower than budget. Farm income support payments were \$170 million under budget mainly due to reduced CAIS expenses. In other words, producers on average had a little better year than was projected. Insurance expenses were \$40 million lower than budgeted because of favourable crop conditions. Rural service expenditures were \$10 million higher than budget due mainly to increased payments to agricultural societies and higher demand for rural utility programs. There are three basic rural utility programs. There's the program that supports a partial offset of costs for infrastructure for rural electrification associations, for rural gas co-ops, and for a remote area heating allowance for those who do not have access to the normal natural gas services that most Albertans do.

The Auditor General's report. The Auditor General drew to our attention the fact that the farm fuel benefit program had not gone through a re-registration process. In other words, who is still eligible under the program conditions? We've aggressively moved forward on that. Not only have we started renewal; we've put in place a process that will ensure that every year without fail a third of program participants receive a renewal notice. So on a rolling basis every year the most you could be out of date is two years for any one applicant. We believe that process will keep the program very current. With the support of Ag Financial Services Corporation we've mailed out 21,000 re-registrations of the 64,000 applicants. We've also sent a letter to the other 43,000, and as a result they

know that their renewal will come in one of the next two years.

Mr. Chair, in closing, this captures some of the things we've done. We believe we've accomplished a great deal in an environment of substantial shift and change. We're trying to listen to rural Albertans very carefully to respond to their needs.

Thank you for your time and attention today. I would be more than happy to answer any questions that you might have.

8:50

The Chair: Thank you very much.

Mr. Dunn, do you have anything to add at this time?

Mr. Dunn: Yeah. Mr. Chairman, Ronda White will read our very brief comments into the record.

Ms White: Mr. Chairman, the results of our audit of the ministry start on page 237 in our October 2008 public report. You'll notice that we have not made any new recommendations to the department, but on page 380 we have listed all the prior year recommendations we've made to the department that are still outstanding.

Committee members may want to ask management about the progress they have made in implementing these recommendations, particularly, as the deputy already referred to, the recommendation to verify the eligibility of participants in the farm fuel benefit program, which is actually recommendation 24 from the 2006 report; also to look at our recommendations around improving the department's processes for evaluating the success of its grants programs, recommendation 3 from the 2001 AG report; and lastly, improving the department's food safety surveillance and inspection systems, recommendations 9, 10, and 11 from our 2006 AG report.

We also note that the Agriculture Financial Services Corporation has implemented two of our prior year recommendations by improving its controls for issuing payments under the CAIS program and its information technology security practices.

On page 381 we also identify two prior year recommendations that the corporation still needs to implement.

Mr. Chairman, those are our comments. We'd be happy to answer any questions.

The Chair: Thank you very much.

With that, we will proceed now to questions. Mr. Chase, followed by Mr. Denis.

Mr. Chase: Thank you very much. I'm pleased to have my hon. colleague from Lethbridge-East attending this morning as a guest. She is beyond a doubt the most connected with the agricultural community. We have two city slickers here beside her.

As always, I look forward to the Auditor General supplementing or clarifying responses. The Auditor General's 2006-07 report, pages 32 to 34, recommended that the Agricultural Financial Services Corporation improve its loan loss methodology and suggested that if it is not changed, the corporation may be exposed to losses that it is not aware of or may provide for losses that don't exist. The Auditor General's October 2008 report has the recommendations listed as outstanding. My first double-barrelled question is: if the corporation acted on these recommendations since the October report, what is the status of the implementation of any of these changes? If not, why not?

I'll follow up, if permitted, with my supplemental.

Mr. Krishnaswamy: Mr. Chairman, I would like to respond to that question. The loan loss methodology has been kind of implemented and has been revised and enhanced. One of the areas in terms of the

methodology was factoring in the historical experience of the AFSC in terms of loan losses. We have been in the business of lending for farm and commercial for the last 35 years, and we have got to of course go back in terms of losses that have happened by giving loans to specific sectors or specific individual businesses.

The Auditor General's comment was more related to the historical experience, how we factor in the historical experience to the existing methodology so that the allowances that we provide for future loans reflect our experience in the past. We have made progress on that, and we have tracked the writeoffs in previous years to the economic conditions. There is a correlation between the economic conditions and a specific industry sector in terms of loan losses. We have collected information for the last five years, and we are going to track them in the future and will be factoring them right from 2008-09 financial statements.

Mr. Chase: Thank you.

My supplemental would be, then: have you recovered significant losses that were made from farmers or organizations that shouldn't have received those loans in the first place? Has there been recovery of money paid out under either accidental or false pretense?

Mr. Krishnaswamy: Mr. Chairman, actually, the corporation has an excellent record in terms of historical experience in recovering loans and in writeoffs. Our writeoffs have been one of the lowest even compared to industry standards. The impact of historical experience being factored into the allowances would be that our allowance for loan losses would be even lower than what is in the financial statement. It's just the opposite of what you are kind of concerned about in terms of loan losses.

Our loan losses in terms of writeoffs have been less than 1 per cent. Our loan allowances have been around 3 per cent, which are still some of the best in the country. I think that factoring in the historical experience will lower the allowance for losses rather than increasing it, anyway. So the risk would be lower than what is reflected in the financial statement.

The Chair: Thank you.

Do you have anything to add, Ms White?

Ms White: No. I think that's fine.

The Chair: Okay. Thank you.

The chair would like to welcome the hon. Member for Edmonton-Mill Woods, Mr. Carl Benito, as well.

Mr. Jonathan Denis, please, followed by Darshan Kang.

Mr. Denis: Thank you very much, Mr. Chair, and thank you to Mr. Knapp and his staff for appearing here. I, however, like my friend from Calgary-Varsity, am a city slicker, so I do have just a couple of questions for you here. Dealing with page 29 of your report, just under goal 3, I'm happy to see that there's an environmental stewardship program that you have, but I'm just curious as to what the definition is under 3(a) as to "environmentally sustainable agriculture practices." How is that defined for the purposes of that survey?

Mr. Knapp: It's a good question. If I could just comment, we've had a couple of comments on city slickers. I do believe and our staff do believe that anyone who eats is connected to agriculture. We're in the food business, so you are connected.

In terms of environmentally sustainable agriculture there is a suite of practices that farmers can adopt that reduce their impact on the

environment. Farmers raise their families on the farm and in that environment, and they're always interested in passing something on in a better state to their family and to future generations because they intend to be there over many generations.

Those practices include things like reduced tillage. The amount of tillage on land used to be four or five actual cultivations in a year for weed control and to create good tills in soil. Those tillages reduce the organic matter in the soil. Actually, in the first few years of prairie agriculture they released nitrogen into the soil by losing carbon, and that caused a reduction in organic matter content in our soils. Under reduced tillage regimes we're seeing direct seeding or minimal tillage, where you essentially seed right into last year's seedbed. What that results in is a buildup of the actual carbon content in the soil and a saving of nitrogen.

The other one is in livestock areas. We're seeing composting of manures.

In the riparian areas, our stream banks, we're seeing many more stream banks fenced off, and we're seeing water moved into water troughing situations that have cement pads that don't result in any soil destruction. So there's just a number of practices.

Maybe the last one is better management of farm fuel tanks. We're seeing a lot of farmers have double-lined tanks or doing things that result in minimal loss of actual farm fuels.

Mr. Denis: Just a quick supplemental here. On page 52, which I understand is just the expanded data from the page I earlier referenced, at the bottom here, under 3(a) again, you indicate the target as 58 per cent. How does your department arrive at that number as the performance measure?

Mr. Knapp: We do a survey of producers on a rolling basis. We ask them to self-state on a list exactly what practices they're adopting in a practice change model, and that's how that survey is derived.

The Chair: Mr. Kang, please, followed by Mr. Bhardwaj.

Mr. Kang: Thank you, Mr. Chair. In the Agriculture and Food annual report, just regarding the grants, while there was a significant decrease in actual grants given out in 2008 in comparison to 2007, as noted on page 112 of the annual report, the budgeted amount for 2008 was also less than the 2007 amount. What mechanisms are in place in the department for assessing how much grant money will be given out? Does this involve any anticipation of grants which may be received, or is the lump sum allocated which must then be distributed by the department?

9:00

Mr. Knapp: Actually, it's a combined process. I'm going to invite my colleagues of the AFSC to perhaps supplement, if I could, Mr. Chair. There are two basic types of grants within the department. One is what we would call a standing grant list. Those are some of the grant programs that I referred to in my opening comments. The \$10.7 million for agricultural service boards is a set amount we budget each year. There's \$8.7 million for agricultural societies that's set each year. There's a set grant for the agricultural initiatives program and so on. Those cumulatively represent grants where we believe we have some predictability, and if the Legislature votes our budget, we can anticipate a set program.

The other grants are grants to individuals, and those result from managing risk and managing income uncertainty. So the variability of whether it rains or whether it hails or whether we have a drought creates different volumes of crop insurance grants. In addition, the

different vagaries of farm income create different income stabilization grants. In those cases we use a model to predict what our grants are going to be. It's a federal model. We work closely with the federal government because many of those programs through federal-provincial agreements are shared on a 60-40 cost-shared basis.

What creates some variability is that, naturally, before the production year is over, you will accrue a list of what you believe will be grant payments. Depending on how those accruals from a prior year are actually expended, it may affect your actual budget for the following year. So there are those two basic groups: the predictable ones and the ones that are based on sort of weather and commodity price demand.

Mr. Kang: I've got a supplemental question here as well. Given the decrease in grants were there fewer projects funded throughout the province, or were the decreases particularly concentrated in one area of the province or perhaps in any area of the agricultural industry, i.e. biofuel or crop production?

Mr. Knapp: Actually, there was no decrease in those standing grants. In fact, there was a slight increase, about a \$5 million increase, to those 286 agricultural societies.

I'm going to turn, perhaps, either to Jim or Krish or Merle to speak about the variation on the basis of the margin enhancement program and so on.

Mr. Krishnaswamy: Mr. Chairman, you see on page 112, that was being referred to, the significant changes in grants from the previous year: \$739 million to \$399 million. In the previous year, 2006-07, the Alberta government had their own initiatives to help out because of the situation in the commodity markets. We've got two programs. One is enhancing the reference margins for the CAIS program, and that will help the farmers who were hit by high input costs in that year, in 2006-07. So there were two big initiatives that the Alberta government did, which was not factored in the 2007-08 accounts. That's why you find a big drop in grants. It is not, as John was saying, that we have reduced the standard grants. These are all demand driven. They were ad hoc programs, and those ad hoc programs were not repeated in the subsequent years.

The Chair: Thank you.

Mr. Bhardwaj, please, followed by Mr. Chase.

Mr. Bhardwaj: Thank you, Mr. Chairman. On page 53 of the annual report, the ministry provided \$10.6 million in grant funding to agricultural service boards "to support delivery of municipal projects, programs and services and the enforcement of legislation related to both weed and pest control." My question is: could you give us some examples of the kinds of projects for this program?

Mr. Knapp: Absolutely. The agricultural service boards program, again, funds the direct operations of 69 agricultural service boards. Looking around the room, I see some individuals who've actually sat on those boards in a rural setting in the past. Those boards typically have a board chair and four other board members, and those members will look at the needs of that municipal jurisdiction in terms of weed control programming; extension, which is education of producers about livestock crops and agricultural economics; pest control, which could be anything from different funguses or clubroot or pocket gopher control as well as any specific livestock diseases; and then, finally, soil conservation, the things we need to do to prevent water erosion of gullies and rills and so on.

Typically that funding provides a percentage of the salary for the agricultural field man, who is sort of the agent of that board that gets those programs implemented. In addition, it will fund some of the work that's done for roadside weed control. With the amount of construction going on in Alberta and the amount of construction equipment going up and down highways, weeds like scentless chamomile are spread very quickly through movement along Alberta's secondary and tertiary road system, so these agricultural service boards employ a network of weed inspectors to watch for those incredibly harmful at an economic level weed invasions and to basically stamp them out. They stamp them out by either hand pulling or spraying. When weeds have become more general, like Canada thistle and dandelion, they tend to do a lot of mowing, and repeated mowings, especially with Canada thistle, will really reduce the population. So those are some of the programs that that ag service boards funding provides for.

Mr. Bhardwaj: Thank you, Mr. Chairman. No supplementary question.

The Chair: Thank you.

Mr. Chase, please, followed by Mr. Jacobs.

Mr. Chase: Thank you. In the last fiscal year, several thousand taxpayer dollars were spent on hosting expenses by the department. Who decides how much is able to be spent on each of these hosting activities?

Mr. Knapp: We have a control system in place. Jim Carter, if I misspeak, please do correct me here. Basically, there's a category of approvals where if you're a manager at a certain level, you may approve hosting expenses. Hosting expenses over a thousand dollars must come to me as deputy for approval. What you'll find is that the majority of those expenses are where we get together with a farm group to say: "Okay. The ag income stabilization program is working well here. You're saying there are some, you know, gaps here or that the program could be better managed if we made some changes here. Let's meet and have a discussion." It's the simple courtesy of providing coffee and occasionally a lunch for those individuals.

Mr. Chase: You may have answered my supplemental; in other words, who signs off on the approval of these hosting expenses? You're saying that you're the final person if the expense is over a thousand dollars.

Mr. Knapp: Exactly. We have a control system in place. Jim, could you elaborate on that?

Mr. Carter: Well, it's in accordance with a Treasury Board directive that deals with hosting and working session approvals. The department has a policy, and all policies are required to be filed with the Treasury Board in terms of what our policies are. John has quoted that at a certain level the deputy minister approves hosting expenses in excess of a thousand dollars, ADMs up to \$500, and managers and directors lower amounts of about \$200. So that's where that's coming from.

Mr. Chase: Thank you for the clarification.

The Chair: Thank you.

Mr. Jacobs, please, followed by Ms Pastoor.

Mr. Jacobs: Thank you, Mr. Chairman. I would just note that not only am I a consumer of food, but I've spent my life trying to produce food, so I do have a little bit of experience on the subject. You know, I'm disappointed to see that a part of the income that agricultural people receive – I think it's 10 per cent – comes from government programs. I think that's extremely unfortunate because most of the people I know in agriculture do not want to receive government programs but have of necessity because of circumstances way beyond their control. For my first question I'm going to go to page 81 of the ministry's report. On line 2 you show a significantly lower payout in insurance than you'd budgeted for. I think that in your comments, John, you mentioned that that was due to a better year, that many producers had a better year than they had expected. Well, I think you really have a challenge to convince livestock producers that they had a better year than they expected. So I guess my question is, you know: could you be more specific in describing for us why that insurance payout is significantly lower than it was budgeted for?

Mr. Knapp: Well, maybe I'll start, and perhaps Merle can assist here. You're certainly right, Mr. Jacobs. The livestock producers, I think almost without exception, in the hog industry and the beef industry would say: we did not have a good year. The reason they did not have a good year is threefold.

9:10

The Canadian dollar during the fiscal year we're reviewing was actually very high, essentially at par with the U.S. dollar, for a long period. That meant that our exports to the U.S. were reduced in terms of the former premium they had placed on them in relation to the U.S. dollar. In essence, American purchasers had to pay more for our product, which reduced exports. The second reason was record-high feed costs. If you're a hog producer, almost 70 per cent of your variable costs are in feed. Barley prices went from an average of about \$2.75 a bushel to about \$5.50 a bushel, so those prices effectively doubled. Not many businesses can sustain a doubling in 70 per cent of their input costs and do well. The third reason was just the whole issue around world trade and, you know, our capacity to move our products at a global level. Those factors did indeed combine for a poor year.

Part of the cyclical variation in these income stabilization programs that AFSC manages so well is based on the margin you've created. It looks at your last five years, it flips out the high and the low years, and it takes the three most medium years and creates a margin for you in terms of, essentially, your returns less your variable expenses. If you don't do well for several years in a row, as was the case in the hog and the beef sectors, your margins, on which program payments are based, actually slip. That is part of the reason for those reduced payments.

That is part of the reason why our minister moved forward with two things. One was the \$176 million we mentioned earlier under the farm recovery program. What he's done more recently is put in place the Alberta livestock and meat strategy because every producer I talk to says exactly what you just said: I don't want to be dependent on government, you know, income support; I want an industry that's strong and vital and can obtain all its return from the marketplace. That plan is something that will provide the underpinning for the industry to aggressively take hold of its future, to get into value chains where value actually passes from the top of the chain right down to the cow-calf producer or the farrow-to-wean producer on a hog farm and enables them to be more profitable on a long-term, market-driven basis.

I'm not sure, Merle, if you have any supplement.

Mr. Jacobson: Yeah. I think I'll add around the crop side that the member was talking on. You see that the budget shows under insurance \$378 million. That represents the 20-year, long-term, loss-to-premium experience. That's how we actually forecast going forward on insurance. The actual, then, is what ends up actually happening, so in the 2007 crop year a slightly better experience in the province as a whole as to what has been seen over the last 20 years. There were some areas, especially along the west side of the province, that at the start saw some significant excess moisture, that caused a lot of challenges around getting the crops planted. That led to some yield challenges in the quality of the grain being harvested. Other spots in the province saw that excess moisture actually resulting in significant yields. Overall things were better than the 20-year average. There were areas within the province that suffered losses, but other areas in the province actually saw some record or close to record yields. It's a combination of those results that goes in.

The Chair: Thank you.

Mr. Jacobs: One supplementary if I may, Mr. Chairman, related to the same subject. My question actually starts in I think it was 2005 when the government of Alberta made an inventory adjustment payment to beef producers specifically, which was of great help to the producers. You know, you then decided to recall those payments, and producers were required to pay them back. I won't get into that one. I guess I'm just curious as to now in 2009 how much of the recall money or the money that you called back from that inventory adjustment has actually come back. Are we approaching the final zero balance, or do we still have a significant balance out there to producers? I still know producers who are now going to the banks to borrow money to repay the balance of those inventory adjustments. Most producers at that time were in serious trouble because of BSE and actually spent the money. So they had no way to get the money back when the department asked them to pay it back, and most of them didn't really plan to pay it back, so it presented some serious financial challenges to them. Are we about zero balance there, or how are we doing on that payback?

Mr. Jacobson: You referred to the BSE time, and that's when the advances were made under the Canadian agricultural income stabilization program to provide immediate cash flow in the very, very dark days when the border was closed around BSE. You know, the intent was that it was advanced against future payments, but as of today those numbers are, basically, at the very end. There was an interest-free period that went from when they were advanced in 2004 all the way through till December 2008. Other program payments, whether they were made under the Canadian agricultural income stabilization program or other government grants, were deducted from that. In the next few months here we hope to be down to the very, very last few of the overpayments related to the equity loss advance that was provided to producers in 2004.

Mr. Jacobs: Okay.

The Chair: Thank you.

Ms White: Just a supplement. If you look at the annual report on page 131, note 4 shows you how much is outstanding in overpayments. It's \$69.572 million at the end of March 2008. The prior year was \$111 million, so it's going down. They've made some allowances for losses or for nonrecoveries on there. I'll just give you that detail.

The Chair: Thank you very much.
Ms Pastoor, followed by Mr. Fawcett.

Ms Pastoor: Thank you, Mr. Chair. I really appreciated the remark that anybody that eats is connected with agriculture. Interestingly enough, we in Lethbridge have had a very successful Aggie Days at our class A society at the exhibition grounds. What I did learn as a city slicker was that the next time I order my sheep or my lambs that I have delivered to my home wrapped in paper, I want it weighed out before it's sheared because there were sheepshearing contests and there was an awful lot of weight that came off in the wool. However, that has nothing to do with my questions.

My question I think in some of the opening commentaries has been addressed, and I think what I'm asking here is a follow-up but perhaps at a later date on what Mr. Jacobs has just said. On page 88 it's noted that \$50 million was provided as guarantees to the feeder associations in 2008 – and I'm not sure if the cow-calf operations come in under this or if this is just strictly our feeders – and \$44 million in '07. How much of these funds, if any, were used to cover the loans which were not repaid?

And I do have a supplement.

Mr. Knapp: I think I can speak to that. If I could, Mr. Chair, I'd like to address the sheep issue just briefly.

Mr. Chase: Please don't pull the wool over our eyes.

Mr. Knapp: No, I'll try not to. I would never do that to committee members.

Alberta does have a very strong sheep industry. It historically has had one of the strongest industries in Canada. Wool as a commodity is not currently worth a lot. In relative terms the value of the meat that you purchase in relationship to the value of the wool is about 19 to 1. That's sort of the ratio. So unlike countries like Australia, where they've got extremely fine wool that makes extremely valuable suits and fine clothing, our wool tends to be medium to more coarse. It makes carpets, it does make socks, and it makes blankets. But that wool doesn't have as high a value. The problem is that the wool may represent up to 10 pounds on the animal. That's how much fleece those animals carry around. So if you bought your sheep on a live-weight basis, 10 pounds immediately disappeared when it was sheared before the meat was produced.

Going back to the feeder association program, since 1935 Alberta has had an extremely strong feeder association program. What feeder associations are is, essentially, local co-ops. They're groups of farmers and ranchers in an area who have surplus feed but do not have the cash flow to purchase the weaned calves to feed those animals on. As a consequence they got together in associations.

9:20

All the current Feeder Associations Guarantee Act, which is being amended with some minor housekeeping in this sitting of the Legislature, does provide a government backstop to the currently 56 feeder associations, 56 co-ops, out there. None of those associations failed. There was no drawdown – period – on that guarantee last year.

I just want to comment on that. I mentioned 1935. That program has been so successful for so long because it's very locally based. The producers who are members of that association are accountable on a daily basis to their colleague members in the co-op: at the curling rink, in the coffee shop, at church, at the auction market. As a consequence they hold each other accountable for those payments.

Jim is drawing my attention here. Jim, have I misspoken?

Mr. Carter: There was a provision for a loss on a loan guarantee of \$656,000 in 2007-08.

Mr. Knapp: So there was a provision.

Mr. Carter: And it was an actual loss. I think it was the pea sales feeder association.

Mr. Knapp: Okay. So I apologize, Mr. Chairman. In that year there was.

I do want to reiterate that historically there are no drawdowns on that program. It has been remarkably free of demand on that guarantee.

Ms Pastoor: Thank you. I think you've covered the answer to what was going to be my supplemental, but I would make, I think, a comment on how important it is that we maintain that agricultural community that you just explained when we're responsible to and for each other.

The Chair: Thank you.

Mr. Fawcett, please, followed by Mr. Kang.

Mr. Fawcett: Yeah. I have to admit that, again, I'm a city slicker, but by your definition I would say that I have a big connection to the department.

I guess maybe my background is sort of why I'm asking this question. On page 81 of the annual report under schedule 1 expenses there are two programs at the very top, the agriculture income support program and the insurance program. My question is: what is the difference between those two – I guess I don't understand the nuances of the differences between the two – and why have we seen a huge decrease from 2007 to 2008 in the agriculture income support and a huge increase in the insurance program?

Mr. Jacobson: Thank you. I think it gives a good opportunity to explain some of the nuances and differences around that. First of all, where it says "agriculture income support," that program is mainly made up of the agricultural income stabilization program, which is a federal-provincial program. It provides kind of a unique approach to stabilizing farm income. It looks over the whole farm as a operation, so all of the commodities, all of the enterprises that a person is in, and compares the historic experience, like John explained earlier, for the last five years compared to the current year.

It picks up everything from market price decline to input cost increases to production failures and, basically, any other risk that an operation is faced with to provide short-term stabilization to an operation to allow them to have time to recover from a multitude of disasters. It's not in place for long-term industry structural changes like we're seeing going on in some of the livestock sectors. It's for that short-term response to allow producers to take in and recover or adapt.

The insurance program is strictly related to crops. It is a true insurance program, where it's based on a specified list of perils basically around weather and disease. It provides protection to a producer at a crop level. Compared to the Canadian agricultural income stabilization program, which is the whole farm, all enterprises together, this provides it down to an individual crop. So it allows producers to actually have some levels of guarantee that it takes and provides. It becomes a tool that producers give for security on operating loans because it's a bankable product that a producer knows at the start of the year. I'm guaranteed a minimum

level of protection for this crop. They know the perils it covers. They actually cost share in the premium together with the federal and provincial governments on that.

All together you have a suite of programs that provides producers a whole farm aspect to making sure that I can respond to almost any type of problem that comes along as well as a little more comprehensive management of how I manage the risk on my individual crops as I go forward.

Mr. Knapp: Mr. Chair, could I just supplement briefly?

The Chair: Briefly, please.

Mr. Knapp: Around the world, especially in the developed world, all countries provide programs like this. Alberta and Canada are doing, you know, essentially the same as other nations. As Merle explained, part of their design is based on World Trade Organization rules and the fact that there are certain things you cannot do or that are subject to countervail, and that does impact the design of the programs that he explained.

Mr. Fawcett: I guess my supplemental is: why the significant decline in expenditures in the agricultural income support program and the increase in the insurance?

Mr. Jacobson: Where it shows the 2007 actual of \$572 million, there were two Alberta-driven ad hoc payments that were included in that year that resulted in the \$572 million on top of the Canadian agricultural income stabilization program, which ends up reflecting what the decline ends up being. If you compare it to what the budget was, \$368 million, that's where the deputy indicated that's based kind of on projections of what ends up happening within the industry basically a year or 18 months out compared to what happens in the actual result, which gets reported in the actual for 2007.

The big decline is two significant ad hoc programs in what's showing as 2007, which didn't exist in 2008, whereas the insurance 2007 actual of \$216 million was probably one of the best crop years that the province as a whole had ever seen. It resulted in very low insurance indemnities compared to slightly better than average crops across the province in the 2008 actual.

The Chair: Thank you, Mr. Jacobson.

Mr. Kang, please, followed by Mr. Benito.

Mr. Kang: Thank you, Mr. Chair. On page 43 of the AFSC 2007-2008 annual report the 2008 allowance for doubtful accounts is 34 and a half million dollars. That's for doubtful accounts and losses. The previous year it was \$41 million. The number for 2008 is less than the previous year because of \$12.5 million in writeoffs for 2008. Does the department or corporation have any guidelines regarding what maximum these allowances may reach?

Mr. Krishnaswamy: Mr. Chairman, the elements for doubtful accounts reflect, in the opinion of management, what are likely to be the losses on account of loans not being received in full. We talked a little bit earlier about the elements of loan losses. The loan losses have declined, and that shows the quality of the loan portfolio that the corporation carries. Constantly we review the security values that underlie the loans, and we update the realizable value of the loans. Our arrears on loan accounts have been very low.

Also, our security values have been maintaining. Land values have been very high in Alberta and have been holding also. In the past years land values have been going up. Ninety per cent of our

loans are for farmers. Most of the loans are secured by land, so as the land values hold, the security value is maintaining whereas the loan outstanding amounts are going down because of the repayments. Naturally, you will find a decline in the loan losses from year to year. Unless a security value drops or there is a heavy default and arrears go up, you will find the loan losses are usually going down. That is what's reflected in the financial statement.

9:30

In terms of any norms with regard to what the loan losses should be, we have a methodology, that we referred to before. We have a methodology that takes into account not only the security value but also the economic factors that are impacting the repayment capacity of the farmers and also the commercial loans. Also, we compare our loan losses with similar companies and similar industries, like FCC, ATB, and so on, to make sure that we are on track. Another aspect, that we talked about earlier, is factoring in the historical experience of AFSC in terms of what we provide for loan losses. That's the reason why the loan losses are lower this year compared to the previous year.

Mr. Dunn: Just to help on the question. I believe you're reading from the AFSC annual report. If all the committee members go to page 135 and look at note 12, that's a replication. Note 12 shows the categories of allowances for doubtful accounts. You'll note within the 2008 year – you may want to refer to this one, Krish – that there was an extremely large loan that went bad. I think that was with one of the new slaughterhouses. Maybe you just want to explain that.

Mr. Krishnaswamy: Mr. Chairman, you see that the writeoffs net of recoveries on page 135 in 2008 is \$12,562,000. That is made up of allowances that we have made for two loans, Ranchers Meats and Rancher's Beef. Those are the loans given recently for increasing the slaughter capacity in the province and are specific loans. Those are the increases, why the increase is there.

The Chair: Thank you.

Mr. Kang: What if this, you know, worst-case scenario of the security values doesn't hold? Do we have any long-term strategy in place as to what these amounts will be, worst-case scenario?

Mr. Krishnaswamy: The loan losses that we have provided for in the financial statement – in financial things we always follow conservatism. We make the allowances based on the best information available as of that date. As we go along throughout the year, we update the security values. We evaluate the loan repayment capacities and update it. As I said before, the security value is very key, and the repayment capacity of the farmers and the borrowers is very key. This is a snapshot taken as of March 31, 2008. I would say that if you wanted to have that as kind of a conservatism in terms of loan losses that are likely to be not recovered, it's not a worst-case scenario we follow in financial accounting standards. It's conservatism and what is the best estimate of what is likely to go on in terms of losses on loans. Based on the security value as of that date, we estimate that only about \$30 million is likely to go bad out of the \$1.1 billion portfolio we carry.

The Chair: Thank you very much.

Mr. Benito, please, followed by Mr. Chase.

Mr. Benito: Thank you very much, Mr. Chair. It is nice to see everybody back at this table again. I am especially happy to see my

colleague Darshan Kang back at this committee again. Welcome back. Thanks also to ARD for coming here this morning.

I agree with our deputy minister, Mr. Knapp, that every time we put food on our table we are all involved in agriculture. I would like to add also that rural development is one of the important factors in Alberta's further development. Without rural development it is hard for this province to move forward. It was mentioned in your presentation that 24 countries are open to the world. I am assuming that this is our market in the world regarding Alberta's agricultural products. Therefore, can the deputy minister make a comment about Alberta's specific programs and its progress to open more markets in the world to further our development?

Mr. Knapp: Absolutely. For a province like Alberta, which lives on its exports – we produce 10 times more cereals and oilseeds than we can consume or process at home and four times more meat products than we can consume or process at home – export out of our jurisdiction at a national level and out of our jurisdiction at an international level to high-value markets is absolutely critical to our agriculture.

The reference to 24 countries, that was based on the Office International des Épizooties', the World Organisation for Animal Health's, standards for BSE. How those standards essentially work is that if you do no surveillance and claim that you do not have BSE, you're in what's called the lowest category, unknown, and no one will trade with you. If you do a lot of disease surveillance and clearly do not have BSE – like in Australia, for example, or in New Zealand – you're in the minimal risk category. That's the highest. That's the gold standard. If you're like Canada or the U.S., you're in what's called the controlled risk category. You have it, but you're taking aggressive steps, like surveillance and SRM removal, to eliminate it, and under OIE rules every nation should open its doors to trade.

There are a couple of our major trading partners, Korea and mainland China, that are not following OIE rules, quite frankly. Our minister has worked extremely hard, making two trips to Asia, to try and open those trade doors. The federal minister, the hon. Minister Ritz, has followed up and just recently was able to announce as a result of those combined efforts an opening of the Hong Kong market to bone-in beef. Some countries will accept only boneless; some will accept bone-in as well. That will be worth about \$26 million to Canadian beef producers. The fact that 85 per cent of beef is slaughtered and processed in Alberta nationally means that at least 85 per cent of that benefit will come to Alberta producers.

In addition, our minister has put in place the Alberta livestock and meat strategy, and a key component of that strategy is what I call kicking open those trade doors internationally. The minister is prepared to put funding into efforts that will actually support things like this trade secretariat. The trade secretariat is based on collecting some of the best trade capacity in the world, putting it in place here in Canada, and combining that with the high-quality disease control reputation that the Canadian Food Inspection Agency has, who are great at that but not so great at opening trade doors and brokering deals, putting those two together to have a much more complete trade access package. So that's a strategic approach to enhancing world markets.

We also have a team of staff that do a lot of work with individual firms marketing grain products, further processed meat products, and bioproducts as well. We're seeing a rise in bioproducts – canola-based plastics, for example – for trade.

Mr. Benito: My supplementary question, Mr. Chair. Because of the importance of having good markets, is there any significant develop-

ment in our markets in Japan and the United States? You didn't mention those countries, sir.

Mr. Knapp: Yes. There is nothing specific I can share with you today about Japan – I'll just give you a little bit of background on that – but I can tell you that we're very hopeful about something in the very near future. The Japanese government, with respect, was criticized by its citizens for mismanaging its own BSE program. Japanese citizens believed that their government withheld information from them. Japanese farmers and ranchers found BSE in their herds, and government didn't disclose that quickly enough to its citizens, whereas you'll notice that in Alberta immediately that we had BSE, there was immediate full disclosure and regular reporting. As a result, beef consumption in Alberta and Canada actually went up during the BSE period because of public confidence in the safety of the food.

Japan has reacted – some nations would say has overreacted – to the BSE crisis by lowering the age requirement of the animals for beef that are imported to 20 months of age. A lot of beef is produced in that 22 to 24 months of age. As a consequence it's hard to get other than a few select animals into Japan. That's why Alberta has moved forward with age verification, where we can now prove the age of these animals and the beef that comes from them. We think that will lever our way much more firmly into the Japanese market in the next few months.

9:40

The Chair: Thank you.

Mr. Chase, please, followed by the patient Mr. Quest.

Mr. Chase: Thank you. A recommendation from the Auditor General in 2000-2001 was repeated in 2004-05 and is still listed as outstanding in the October 2008 report. The recommendation is evaluating program success for grant management. Several grant programs had not been evaluated, and many had no defined performance measures. It was recommended that grant recipients be evaluated periodically in order to assess their performance. Why is this recommendation still outstanding?

Mr. Knapp: Mr. Chair, I believe I can address that very directly. In the last nine months the department of agriculture went through the most comprehensive program review process in government. It resulted in reducing expenditures annually by \$30 million, reducing full-time equivalent positions by 131, and a complete review of all 256 of our programs, including those grant programs. While I'm not at liberty to announce some of the details around that before our budget is filed, I believe what you'll find is that there was a review of the grant programs, a very thorough review, that was contained within that broader review process. So we believe we have addressed that in a very significant manner over the past few months.

Mr. Chase: You've partially answered my question: by internally reducing full-time staff. You've mentioned that you're not at liberty, but possibly you can provide a little more detail to answer the supplemental. How does the department currently assess whether or not hundreds of millions of dollars in grant money is being distributed effectively to projects which best utilize the money? I'm somewhat concerned that if you've reduced full-time staff, then there are potentially fewer eyes on the ball.

Mr. Knapp: Well, that's a good question. When you scale up into the hundreds of millions, it pulls in those grant payments that are made through crop insurance or the AgriStability program. AFSC

went through a similar very comprehensive review and, in fact, a downsizing approximately three years ago. I think AFSC demonstrated that by reducing its internal focus and focusing specifically on the programs, it could actually more accurately and more efficiently administer those programs. We have yet to prove that up, but our belief is that by reducing the amount of internal focus we had and focusing very directly and very specifically on those programs, we can in fact see a net efficiency on sort of the public watch around how well those programs are being used.

I'm not sure, Merle, if you have any supplementary comment.

The Chair: I think we're going to, with all due respect, move on. Mr. Quest, please, followed by Ms Pastoor.

The chair would like to welcome Mr. Mason.

Mr. Quest: Thank you, Mr. Chair. I have no supplemental, just the one question, a question for, I think, probably Jason and Jim. On page 81 of the annual report, consolidated financial statements, just looking to the expense line for environment and food safety, the actual expenditure is fairly significantly under budget. Of course, last year food safety was a very high-profile topic in this country. I'm just wondering why the variance.

Mr. Carter: Thank you, Mr. Chairman. The environment and food safety program includes, among other programs, a program for specified risk material removal, and John has spoken about that earlier in his summation of the department. The specified risk material program has gone through some adjustments. It's a three-year program. There have been adjustments in annual spending under that program over the three years. What you're seeing here is an adjustment in 2007-08 in terms of the delay in getting projects up and running on the capital component of the initiative. We're providing support to red meat processing plants in terms of providing support in upgrading their facilities to deal with the SRM. Because of the impact in the construction industry, there were delays in actually moving those projects forward, so they would be shifting into the following fiscal year, hence the reduction in terms of our expenditures compared to budget in that year.

Mr. Quest: Thank you.

The Chair: Thank you.

Ms Pastoor, please, followed by Ms Woo-Paw.

Ms Pastoor: Thank you, Mr. Chair. Rural services spent 23 per cent more than its allotted budget in 2008. Were these for specific projects, or was there just a general increase across the board? What types of services would those have gone into?

I'll do my supplemental at the same time. If this was sort of a one-off thing, fine, but if not, then what measures would be in place to, you know, prevent cost overruns?

Mr. Carter: Mr. Chairman, with the increase in expenditures that year there was an additional \$5 million provided to ag societies as a one-time implementation to assist ag societies with some of their cost pressures during that fiscal year. In addition to that, the rural utilities program – and John, again, has spoken about the rural gas program, rural electrification. Because of the demand in the construction industry and increased construction costs there were pressures on the program to provide additional funding to address some of the inflationary costs of construction for that program. So the reason is that there are two programs: the ag societies and the rural utilities programs.

Ms Pastoor: Thank you. I'm sorry that it was just one time for the ag societies.

The Chair: Ms Woo-Paw, please, followed by Mr. Kang.

Ms Woo-Paw: Thank you, Mr. Chair. The AgriStability program is meant to stabilize short-term farm incomes. I would like to know what percentage of the producers who received this payment in 2007-2008 also received payment in prior years. I'd like to know whether there are limits to the number of payments a producer can receive, whether you track, you know, the applicants to the program.

Mr. Jacobson: Yeah, we actually do track very, very closely the participation and how they're using the programs. Alberta has actually been fairly fortunate, where there have been between 30,000 and 31,000 farmers participating in that program very, very consistently. Other places in the country have seen 30 per cent to 50 per cent declines in producers. We want to actually encourage them to participate. What we have seen is that it's very, very personal. Like, it's down to that person's financial results. We have seen in previous years about two-thirds of producers actually receiving benefits under that program.

In the year that we're seeing, in the 2008 actuals, the number of people that were actually receiving payments under that program declined to about 40 per cent; 40, 50 per cent of those participating actually received benefits. Then we track that by their historical reference margin as to how often they can actually claim. Basically, they're allowed one or two times to claim, and their coverage under that program drops down to a point where it kind of restricts their ability to participate because it's for that short-term loss.

Ms Woo-Paw: I'd like to understand: why is it that you encourage them to use the program consistently?

Mr. Jacobson: The program is put in place there for the long term to try to reduce ad hoc requests because it does cover all aspects of the farm. By having producers participate regularly, they then will begin to see the financial results that happen historically over time through the program, and as things unexpectedly happen, they actually have something in place that they can rely on. If they don't participate regularly and something happens through the year, then they're left unprotected whereas if they participate regularly, when an unexpected event happens, coverage is actually provided.

The Chair: Thank you.

Mr. Kang, please, followed by Mr. Bhardwaj.

Mr. Kang: Thank you, Mr. Chair. On page 80 of the annual report the transfers from the government of Canada were budgeted for \$329 million for 2008 yet were only \$171 million. Why was there such a decrease? Was the downfall made up by the province?

Mr. Krishnaswamy: Mr. Chairman, on the transfers from the government of Canada, as we mentioned earlier, some of the programs that have been implemented in this ministry are cost shared between the government of Canada and the government of Alberta on a 60-40 percentage. This amount in the budget is based on the projected cost of payments under the AgriStability program and our CAIS program as well as the money that the government of Canada will fund for the crop insurance programs, which is based on the producer's premium that is collected for the program.

9:50

As John has mentioned several times in the past, the budget is based on the estimates that they could make almost 18 months or two years prior to the actual year, so conditions changed between then and the actual. In this particular year, 2008, two things happened. One is that there were some accruals which were made in the prior years that proved to be overaccruals. We have reversed the overaccruals in the current year, and that has reduced the amount of contribution you'll get from Canada for the actual. That's why the actual is less than the budget. Secondly, the same thing goes with regard to the crop insurance. It depends on the premium you collect for the particular year from the producers, so it varies from year to year. A significant change in this case was with regard to the accruals that had been done for the prior years for the CAIS program, which have proved to be overaccruals, which were reversed out. That's why you see a significant difference between the budget and the actual.

Mr. Kang: So it didn't affect any programs or benefits as a result of the decrease? There were no programs or benefits affected by this?

Mr. Krishnaswamy: No. In fact, it doesn't result in any benefits being denied or anything because these programs, AgriStability program and CAIS, are demand driven. All the applications that have been received have been given benefits under the program.

The Chair: Thank you.

Mr. Jacobs, please, followed by Mr. Chase.

Mr. Jacobs: Thank you very much, Mr. Chairman. A couple of quick questions, or one question and then a supplementary. I noticed on page 31 of your report, core business 3, strengthen business risk management. This one aroused my curiosity especially as it relates to how you do this. Are you able to provide good risk management benefit to small- or medium-sized producers, or is this basically targeted to large producers?

Mr. Knapp: I'll start and maybe ask Merle to supplement. We'll try to be brief, Mr. Chair. This one is focused around producers acquiring the management skills. Apart from that suite of business risk management programs, it's the management skills around when to hedge their commodity, when to hedge the dollar, how to forward contract, how to lock in a price, how to put management regimes in place at a production level on the farm that would take as much management-controlled risk – in other words, it's not prices, and it's not weather – out of the equation. Producers have said to us consistently that that's the area where they personally feel they can make the most gains. They want to have more control over understanding how to manage their risk.

What we've done is put in place a network – and we've strengthened that this year – of business risk management specialists. We have a network of farm economists who are now available through our extension system to work individually with producers, to look at their portfolio, and to help them assess where they can make changes in their risk management practices. Almost anyone we've worked with on that front has been extremely supportive of what they've learned. Some of this, by the way, goes right into tax management regimes, and we've got a well-known tax expert, Mr. Merle Good, who many have worked with, who will help people do that tax planning as well.

Mr. Jacobson: We see the benefit of this really going into the

smaller and medium-sized operations, where it becomes difficult for them to actually hire the expertise to provide the advice. Our staff use, like John was saying, a lot of those tools and expertise when they're working with the clients one on one, but we see it really going to the smaller and more medium-sized operations that require additional support to improve their management skills in these areas.

Mr. Jacobs: Thank you. Concerning the environment, we had some questions on the environment. I would just like to add one subject to the environmental discussion and ask you a question relating to soil salinity: are we progressing in reducing the amount of soil salinity, and if so, what's the outlook?

Mr. Knapp: Absolutely, categorically yes. The soil salinity that you're referring to, Mr. Jacobs, is what we would call saline seep. That's when you get too much water applied to land surfaces, especially under irrigation, and the sodium sulphate content that's in the soils has actually leached down into a water table. It flows along the water table and comes up into a saline seep. Many of us in our youth called those alkaline patches, those white patches you used to see more frequently when you flew over southern Alberta.

What we've done in irrigation is dramatically reduce our water application, mostly through better timing and also by using drip irrigation, where you have less evapotranspiration loss and more direct usage. As a result there is less water flowing through the soil, washing that sodium sulphate into the saline seep areas, so we in fact have seen a reduction in saline areas.

We've also learned a lot. Our soil scientists with Alberta Agriculture and Agriculture and Agri-Food Canada have learned that certain crops can grow better in those saline areas, and as they grow, they actually draw the sodium sulphate back out of the soil. Kochia, which used to be a weed, is an example of something that under cultivation will draw that out. It's almost like the wetland system drawing contaminants out of the watershed. What we've learned in agriculture has drawn that sodium sulphate back out of the soil. So, yes, great improvements have been made.

The Chair: Thank you.

Unfortunately, we don't have much time left, so I'm going to ask that those members who still have their names on the list to read your questions into the record and that you respond, Mr. Knapp, on behalf of the department formally through the clerk to all members.

We'll start with Mr. Sandhu, please.

Mr. Sandhu: I've got experience in the city and on the farm. When I came here, I was only 17, so my background is on a farm back in India, in Punjab.

I've got a question, a quick one. On page 57 of the annual report we've got an expense of \$4.1 million for the training of agricultural business managers. I need to know what the managers are doing: what's their job?

The second question. I get to go back and forth to India to visit. On a farm in India, in Punjab, they grow three crops, you know, annually. Is any study done in Alberta that different crops can be done here? They do, back and forth, three: wheat, rice, and in between they do other crops. Can we do anything here in Alberta to do more crops so that we can do more stuff here on the agriculture side?

Thank you.

The Chair: Thank you.

Mr. Fawcett, please, followed by Mr. Drysdale and Mr. Chase.

Mr. Fawcett: Thank you, Mr. Chair. I know that Mr. Chase had asked similar questions, but mine is more specific, about the approximately \$16 million that went to agricultural initiatives and agricultural societies through grants. What are examples of some of those types of projects, and what mechanisms are in place to ensure that we're achieving the objectives that are set out in those projects? Are there any evaluations that are completed, and what are the requirements for those evaluations when a grant is received by those groups?

The Chair: Thank you.
Mr. Drysdale, please.

Mr. Drysdale: I'll pass, Mr. Chair.

The Chair: Okay.
Mr. Chase.

Mr. Chase: Thank you. This is a split question on grant management. The first question is actually to the Auditor General. For the past eight years the Auditor General's department has been pushing the ag ministry for greater accountability in grant management. My question is to Mr. Dunn. Have you seen a recent dramatic improvement in implementing your oversight recommendations?

Secondly, with regard to grant management, for the fiscal year 2007-2008 a grant was given for Canada-Alberta specified risk material, SRM, disposal in the amount of \$11.8 million. This was for the implementation of an enhanced feed ban to secure access to cattle and beef markets. With regard to this and other grant management programs, of all the grants given out in 2007-2008 or in previous fiscal years, what department follow-up was done, and can any specific numbers be provided? How many were assessed out of how many grants given out? In other words, a comment on the sampling process to ensure risk management.

The Chair: Thank you.
Mr. Mason, did you have a question?

Mr. Mason: I do, Mr. Chairman. Thanks very much. The Alberta farm recovery plan 2 is under way, and my question is: what percentage and what dollar figure of the \$300 million available is going to the big packers, specifically Cargill and Tyson and any entities that are owned by them?

10:00

The Chair: Thank you very much.
That concludes this portion of our meeting. I on behalf of all committee members would like to formally thank the officials from the department this morning, and we will look forward to receiving your written responses. The very best to you in administering the programs and policies in your department in the next fiscal year.

Mr. Knapp: Thank you very much.

The Chair: We will move on now, please, to item 5 on our agenda. The committee clerk has drafted the annual report of the committee's 2008 activities for your consideration. As chair I would be tabling this report in the Legislative Assembly at some point. Does anyone have any additions or corrections to the draft annual report that was circulated? No. Could someone please move that? Mr. Sandhu. Thank you. Moved by Mr. Peter Sandhu that the Standing Committee on Public Accounts approve the draft 2008 report of the Standing Committee on Public Accounts as distributed. All those in favour? Seeing none opposed, thank you.

Under item 6, other business, I would like to note that written

follow-up responses have been received for all the committee meetings held in 2008.

We are also scheduling for this year. The department scheduling list was for your reference, but it was not distributed to other committee members. Currently we have scheduled meetings through to the middle of March, March 11. We need to provide a department for you for March 18 and on through the rest of the session. Does anyone have any suggestions or any advice for the chair as to which departments you would like to see come before us? Right now what we are looking at: labour is certainly going to come. Tourism, Parks and Recreation is going to come as well as Culture and Community Spirit. After the break we're going to have Infrastructure and Transportation, again together, as well as the ministries of Housing and Municipal Affairs because before the election they were still a single department. They were divided after the election. That would be the reason we sort of have these dual ministries coming before us. That will be the end of that practice for – well, we can't determine for how long that would happen.

On March 18 we would like to get someone scheduled. If anyone has any suggestions, if you would let me know or let the vice-chair know, please, within the next couple of days, we'd be very grateful. We haven't seen the following departments for at least one year: Aboriginal Relations, Environment, International and Intergovernmental Relations, Seniors and Community Supports, and the Treasury Board. We can work this out. If you have any suggestions as to whom you would like to see come before the committee, just let us know. Okay? Thank you.

Now research. Philip Massolin would like to discuss the committee's research needs briefly.

Dr. Massolin: Yes. I'll be very brief; I know we're running short on time. I just wanted to speak about the reports that the LAO research section has prepared for this committee over the past number of meetings. I just wanted to get a sense, Mr. Chair, of whether or not the committee would like us to continue preparing those background briefings and, if so, whether the committee has any additional sort of suggestions or recommendations as to what sorts of questions or areas of inquiry we might pursue. We'd be happy to receive those now or in subsequent meetings.

Just one final thing. I guess it might be a little bit late to field those requests for next Wednesday's meeting because the report, if the committee so desires us to continue with that report, will be posted on Friday, but for subsequent meetings we'd be willing to take requests.

Thank you.

The Chair: Thank you.

So if you have any suggestions, please let Philip Massolin and his research team know – they've been doing excellent work for us to date – through the committee clerk. Just let Philip know if you have any specific interest in an issue or a program or a policy that's delivered by a department. It will be discussed with the vice-chair and the chair. Okay?

Is there any other business that committee members wish to raise at this time? Thank you.

Now the date of our next meeting. I would like to remind hon. members again that we will be meeting with Alberta Employment and Immigration on Wednesday, February 18, 2009, from 8:30 until 10.

May I please have a motion to adjourn? Moved by Mr. Drysdale that the meeting be adjourned. All in favour? Seeing none opposed, thank you. Have a good week.

[The committee adjourned at 10:06 a.m.]

