



Legislative Assembly of Alberta

The 27th Legislature
Fourth Session

Standing Committee
on
Public Accounts

Agriculture and Rural Development

Wednesday, March 16, 2011
8:30 a.m.

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The 27th Legislature
Fourth Session**

Standing Committee on Public Accounts

MacDonald, Hugh, Edmonton-Gold Bar (AL), Chair
Rodney, Dave, Calgary-Lougheed (PC), Deputy Chair
Allred, Ken, St. Albert (PC)
Anderson, Rob, Airdrie-Chestermere (W)
Benito, Carl, Edmonton-Mill Woods (PC)
Calahasen, Pearl, Lesser Slave Lake (PC)
Chase, Harry B., Calgary-Varsity (AL)
Dallas, Cal, Red Deer-South (PC)
Elniski, Doug, Edmonton-Calder (PC)
Fawcett, Kyle, Calgary-North Hill (PC)
Griffiths, Doug, Battle River-Wainwright (PC)
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Kang, Darshan S., Calgary-McCall (AL)
Mason, Brian, Edmonton-Highlands-Norwood (ND)
Sandhu, Peter, Edmonton-Manning (PC)
Vandermeer, Tony, Edmonton-Beverly-Clareview (PC)
Xiao, David H., Edmonton-McClung (PC)

Also in Attendance

Pastoor, Bridget Brennan, Lethbridge-East (AL)

Department of Agriculture and Rural Development Participants

Jim Carter	Senior Financial Officer
Merle Jacobson	Agriculture Financial Services Corporation
Brad Klak	Agriculture Financial Services Corporation
John Knapp	Deputy Minister
Krish Krishnaswamy	Agriculture Financial Services Corporation

Office of the Auditor General Participants

Merwan Saher	Auditor General
Jeff Dumont	Assistant Auditor General
Karen Graham	Principal

Support Staff

W.J. David McNeil	Clerk
Shannon Dean	Senior Parliamentary Counsel/ Director of House Services
Robert H. Reynolds, QC	Law Clerk/Director of Interparliamentary Relations
Micheline S. Gravel	Manager – House Proceedings
Corinne Dacyshyn	Committee Clerk
Jody Rempel	Committee Clerk
Karen Sawchuk	Committee Clerk
Rhonda Sorensen	Manager of Corporate Communications and Broadcast Services
Melanie Friesacher	Communications Consultant
Tracey Sales	Communications Consultant
Philip Massolin	Committee Research Co-ordinator
Stephanie LeBlanc	Legal Research Officer
Diana Staley	Research Officer
Rachel Stein	Research Officer
Liz Sim	Managing Editor of <i>Alberta Hansard</i>

8:30 a.m.

Wednesday, March 16, 2011

[Mr. MacDonald in the chair]

The Chair: Good morning, everyone. I would like to call this Standing Committee on Public Accounts to order. My name is Hugh MacDonald, and on behalf of the committee I would like to welcome everyone this morning. Please note that this meeting is recorded by *Hansard*, and the audio is streamed live on the Internet. Perhaps we can start with the hon. vice chair. We will go around the table quickly and introduce ourselves.

Mr. Rodney: Thank you, sir. From Calgary-Lougheed, Dave Rodney. Welcome.

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

Mr. Benito: Edmonton-Mill Woods. Carl Benito.

Mr. Kang: Good morning, everyone. Darshan Kang, MLA, Calgary-McCall.

Mr. Chase: Good morning. Harry Chase, Calgary-Varsity. Looking forward to asking questions of the ministry of subsidies.

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

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

Mr. Klak: Brad Klak, president of Ag Financial Services Corporation.

Mr. Knapp: John Knapp, Deputy Minister of Agriculture and Rural Development.

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

Ms Graham: Karen Graham, principal, office of the Auditor General.

Mr. Dumont: Good morning. Jeff Dumont, Assistant Auditor General.

Mr. Saher: Merwan Saher, Auditor General.

Mr. Allred: Ken Allred, MLA, St. Albert.

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

The Chair: And the chair would like to note that Mr. Elniski has just arrived.

Mr. Elniski: And good morning, Mr. Chair.

Mr. Rodney: From the constituency of . . .

Mr. Elniski: Edmonton-Calder.

The Chair: Is it a fabulous constituency?

Mr. Elniski: No, no, no, no, but it is all in Calder. Thank you.

Ms Rempel: Jody Rempel, committee clerk, Legislative Assembly Office.

The Chair: Thank you. The agenda that was circulated: could I have approval of the agenda for our meeting today? Mr. Sandhu. Moved by Mr. Sandhu that the agenda for the March 16, 2011, meeting be approved as distributed. All in favour? Seeing none opposed, thank you.

The minutes that were circulated from the March 9, 2011, meeting: any questions or approval? Thank you, Mr. Allred. Moved by Mr. Allred that the minutes for the March 9, 2011, Standing Committee on Public Accounts be approved. All in favour? None opposed. Thank you very much.

Of course, this comes to our meeting today with officials from Alberta Agriculture and Rural Development. We would like to welcome again Mr. Knapp and his department officials. We will be dealing with the consolidated financial statement from 2009-10 of the government of Alberta, the 2009-10 annual report from Agriculture and Rural Development, and also the Auditor General's reports from last year. I would remind everyone of the briefing material that was provided to us by the LAO research staff, and I hope people found that to be useful as we prepared for this morning's meeting.

Now I would invite Mr. Knapp, please, to make a brief opening statement on behalf of Alberta Agriculture and Rural Development. Please proceed, sir.

Mr. Knapp: Well, thank you, Mr. Chair, and good morning, everyone. I'm pleased to be here today on behalf of the minister to discuss Agriculture and Rural Development's 2009-10 annual report. I'd like to begin by introducing some of the hard-working staff who helped achieve these results in addition, of course, to those up at the table here: Jason Krips, our assistant deputy minister of industry development and food safety; Jamie Curran, our assistant deputy minister of rural regulatory information and technology; Cathy Housdorff, our director of communications; Kelly Rich, AFSC's vice-president of lending; Gordon Cove, president and CEO of the Alberta Livestock and Meat Agency; and Jodi Stevenson, who works in my office. Have I missed anybody? I think I got the crew back there. Great.

Let me begin by saying that through all the challenges we faced during the 2009-10 year, we tried to keep the importance of relationship building at the forefront of defining who we are and how we work. Our relationships with the industry, with individual producers, with agrifood processors, with other federal and provincial and international governments from a trade perspective are a key part of how we achieve the results we do. We realized significant success as a result of our commitment to our clients, partners, and stakeholders and our unfaltering commitment to ensuring the agriculture industry is positioned for success.

Reaching out and connecting with industry in Alberta's rural communities has also been a key priority, and of course our name is Agriculture and Rural Development. Rural is more than just agriculture. It's a key part of the business development, the quality of life, and wealth generation in all those communities under about 20,000 in population.

From extension programs and services to research and technological advancement and adoption, we are making the connection, listening, adapting, and responding. Our relationships, as I mentioned, extend nationally and internationally as well. In particular, advocating Alberta's position to enhance trade and market access continues to be a priority. We've made significant strides on this front; for example, the recent breakthrough in China, where beef under 30 months of age has been now signalled as acceptable to China from a trade perspective. Given the growth in that market, that is very significant for Alberta's beef industry.

Food safety also remains a priority for the ministry. We continue to strive for excellence in terms of building consumer confidence and international recognition.

I'd like to take some time to share with you some of the successes of the ministry over the fiscal year 2009-10. The suite of 23 programs through the federal-provincial Growing Forward agreement is now fully operational. These programs, supported by almost \$20 million in the 2009-10 fiscal year, are proving their value in assisting the industry in becoming more profitable and competitive and retaining and capturing market opportunities; also, in being prepared for and able to respond effectively to emergencies and being able to manage risk effectively.

Our work with the Alberta Livestock and Meat Agency continues to advance Alberta's agriculture industry through programs like the agribusiness automation and lean manufacturing program and the agribusiness and product development program. These programs, designed to stimulate business and market development and advance efficiency, supported several projects in the 2009-10 year with a total of more than \$3.3 million. On April 1, 2009, we improved access to capital for agricultural producers, agribusinesses, and commercial enterprises by increasing by two-and-a-half-fold the maximum loan or guarantee provided by AFSC to an accumulative total of \$5 million for an individual business.

The AFSC's crop insurance programs are some of the best available in the nation. AgriInsurance now includes coverage for canary seed and camelina, and producers are also offered enhanced benefits for reseeded or unseeded acreage coverage. The 2009 year, unfortunately, saw reduced yields due to drought and frost, so casting back, in contrast to the year we had last year, 2009 was a major drought year with some early frost as well. Indeed, we also saw a decline in commodity prices for both crops and livestock. AgriStability and AgriInsurance combined paid a total of \$927 million in claims and indemnities.

In 2009 71 per cent of the annual crops and 24 per cent of the perennial acres in Alberta were protected with AgriInsurance products with a total insured risk of \$2.75 billion. As of April 30, 2010, AgriStability covered 76 per cent of Alberta's \$9.3 billion of farm cash receipts. Agriculture, of course, is the second-largest industry in Alberta and the largest renewable industry in this province.

During 2009-10 the cattle price insurance program was launched, the first of its kind in Canada and one which is now being reviewed internationally by other jurisdictions who want to emulate Alberta's product. This is a producer-funded insurance product that provides protection against declines in Alberta beef cattle prices. Identified as a key initiative in the Alberta livestock and meat strategy, this AFSC product provided \$147 million in coverage on animals being finished with \$2.5 million in premium intake.

8:40

In 2009-10 AFSC assisted 1,617 rural businesses with direct loans totalling \$370.5 million, the highest lending in any one year, resulting in in excess of \$571.3 million of leveraged investment in addition.

Our food processing development centre in Leduc is now home to the only publicly accessible, commercial, high-scale pressure processing machine in Canada, and for certain manufacturers, of course, that provides a significant advance in competitive technology. This technological advancement is environmentally friendly and is used in food preservation, food safety, and the development of new food products and processes.

We also launched the Alberta Biomaterials Development Centre, connecting Alberta agricultural producers to manufacturers to

assist in moving products forward to commercialization. For example, many of the dashboards you will see in cars on the market in the future will be made of bioproducts developed through that processing technology at Vegreville, in that plant.

We continue to recognize the importance of an industry that is able to innovate, create, and capture value and build competitive capacity by meeting consumer and public expectations.

We continue to support environmental programming through such programs as the environmental farm plan, and we provided grants totalling \$29 million through the irrigation rehabilitation program to support irrigation district rehabilitation of water conveyance infrastructure. Irrigation adds an additional 35,000 jobs to Alberta, and of course the production off irrigated acres is 500 per cent of the production off dryland acres. That industry brings an additional \$1 billion to Alberta's economic activity on an annual basis.

Our work with other ministries on initiatives such as the water for life strategy and the climate change strategy continues to develop policy to define and meet climate change, land use, and water objectives. The quantification protocols developed within Alberta's ministry are now nationally and internationally recognized UNFCCC standards for farmers claiming credits off either sequestering carbon in their land or reducing emissions.

The 2009 H1N1 influenza virus was a significant issue, and of course we had the difficult situation with humans transferring the virus to pigs and the resulting fallout in the pork industry. We were also challenged with a slow start to the 2009 growing season, and after providing our input to federal colleagues for the designation of municipalities for the tax deferral benefit, Alberta received 59 municipalities under the tax deferral benefit for sale of breeding livestock.

Food safety continues to be a priority. We continue to play a significant role in national forums to advance traceability and move toward greater integration in alignment with the Canadian food safety system. Producers in Alberta are now applying for the Growing Forward on-farm food safety grant to help them implement or further enhance food safety practices. Through the food safety processing program under Growing Forward 50 provincially licensed food processors were provided with over \$911,000 for improvements to their facilities, which significantly improved their approach to food safety.

The specified risk material program – and, of course, that's the nervous tissue in which prions could be present and we aren't finding them there – was granted a one-year extension with \$3 million. The Meat Inspection (Amendment) Act was also proclaimed in 2009-10, and that did transfer regulatory authority from mobile butcher facilities to the department from Alberta Health and Wellness. Additionally, the traceability cattle identification regulation was passed in March 2010, and that included facilities moving down from a 5,000 annual throughput to a 1,000 annual throughput for reporting of movement into the facility.

Also, \$10.5 million in Alberta lottery funds was provided to 69 agricultural service boards. That assisted those municipalities with projects, legislation, weed-control programs, pest-control programs, and so on.

In the 2009-10 year 34 projects valued at more than \$7.6 million were approved for the rural community adaptation grant program as well as \$3.9 million through the rural broadband program. Those two programs have been our core rural development activity, helping communities develop the capacity to assess and determine their own future and helping all those rural Albertans disadvantaged through lack of both business and educational access to high-speed Internet to in fact get access to that high-speed.

We also provided \$715,000 to Alberta's agricultural societies to increase the local delivery of practical safe-farming knowledge – that program was a great success with ag societies – \$1.2 million in heating rebates to Albertans residing in remote communities, and \$3.5 million to help lower the cost of installing more than 3,000 individual gas services.

Mr. Chairman, I'd like to end with a brief report on the financial results. In 2009-10 ministry revenues were \$759 million. That is 16 per cent higher than the previous year, the '08-09 year, and that is a \$105 million increase from the '08-09 year. It was \$12 million lower than budgeted. Revenues were higher than 2008-09 primarily due to increases for federal contributions relating to AgriStability, which, of course, is shared 60-40 federally-provincially, and the Growing Forward programs. Revenues were lower than budget mainly because of lower than budgeted producer participation and insurance and reduced earnings on investment.

In terms of expenses, ministry expenses were \$1.4 billion. That's \$26 million higher than the '08-09 budget and is about \$211 million higher than the actual budget. Production insurance expenses were \$170 million higher than budget as a result of poor weather, as we mentioned, and declines in commodity prices. Growing Forward expenses of \$18 million were not included in the original budget as at the time of budget we did not know how much the federal revenue would be for that program.

The Chair: Thank you very much. I appreciate that.

Mr. Saher, please. Do you have anything to add at this time regarding your reports?

Mr. Saher: Yes. Jeff Dumont will make a short comment. Thank you.

Mr. Dumont: Mr. Chairman, the results of our audit for the Ministry of Agriculture and Rural Development start on page 121 of our October report. These include the results of the department, Agriculture Financial Services Corporation, and the Alberta Livestock and Meat Agency. In 2010 we had no new recommendations to the department. We reported on the implementation of three outstanding recommendations related to the farm fuel benefit program and the processes in management information for performance measures.

We have two new recommendations for AFSC in 2009-10. First, AFSC should improve its processes to determine the specific loan loss allowance. We noted calculation errors and ineffective review of the calculated allowance. Second, AFSC should improve its processes for conducting its compliance audits and its investigations. On page 208 of our October 2010 report we have a list of all the outstanding recommendations related to the department and AFSC.

Thank you, Mr. Chairman.

The Chair: Thank you. I appreciate that.

We'll immediately go to questions, but the chair would like to recognize the hon. Member for Lesser Slave Lake. The chair would also like to recognize Lethbridge-East, who has joined us. I would remind members that any member of the Assembly can participate in our proceedings but cannot vote.

Hon. Member for Lesser Slave Lake, since you're the only government member from a rural constituency here today, I would encourage you to join the list if you have any questions.

Mr. Chase, followed by Mr. Benito.

Mr. Chase: Thank you. The Auditor General's report October 2010, outstanding recommendations, grant management. The Auditor General made a recommendation regarding grant man-

agement in 2001, which was repeated in 2005 and was repeated again in the October 2010 report, page 208, and in October 2005, page 113. Can ministry officials explain why a recommendation made in 2001 on grant management, which is a standard program across government, should take 10 years to implement?

Mr. Carter: I'll speak to that, Mr. Chairman. The grant program evaluation: the recommendations started with other recommendations that have not been repeated, and we have addressed some of the recommendations related to grant management. Some of it related to management of specific grant agreements and the performance criteria and evaluating upon close of the grant agreement that those criteria had been met. We have addressed those recommendations.

The report at this time did identify that there were two outstanding recommendations on grant management related to specific grant program evaluation and establishing performance measurement criteria for each program. We have addressed part of those recommendations this year. They are not reported in this report, but we have made significant progress towards addressing those recommendations. We do take it seriously. It's just taken us a bit of time to address all of the outstanding recommendations and close off on the recommendations.

Thank you.

8:50

Mr. Chase: Thank you. Given 10 years' worth of recommendations it's not surprising that catch-up is taking time.

Can you tell us what Agriculture and Rural Development has done to assess the performance of grant programs in meeting the ministry's business goals and how individual grants in these programs are contributing to business goals?

Mr. Knapp: Thank you, Mr. Chair. What we are doing is a two-pronged attack on performance. Number one, of course, our performance measures are reviewed very carefully by the Auditor General each year. You'll note in your report that a number of the performance measures have been commented on and, essentially, reviewed and accepted as the appropriate measures and the methodology accepted as appropriate. The review the Auditor General does, as I understand, is more of a process review than an actual individual performance review. The key here is that the performance measures have been assessed, and the methodology behind them has been accepted as a reasonable methodology.

The second thing we're doing, Mr. Chair, in terms of performance measures is putting in place a new program called Grantium, which will enable us to much more directly and accurately and online chart, track, and assess our programs as they go. The roll-ups we receive from Grantium will enable us to review the actual effectiveness of our grant programs as we go versus at year-end.

Thank you.

The Chair: Thank you very much.

The chair would like to welcome Mr. Fawcett this morning. Your name has been added to the list. Thank you.

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

Mr. Benito: Thank you very much, Mr. Chair. In your annual report, page 14, there was mention of a recruitment project addressing foreign workers, that 29 companies and one industry association were provided with coaching on best practices for foreign worker recruitment processes. I'm specifically interested in knowing if you can give us some information about the Filipino foreign workers involved in ARD.

Mr. Knapp: Certainly, Mr. Chair. That program is one program under the overall umbrella set of programs offered through Employment and Immigration and in collaboration with the federal government where in certain areas we are unable to find either the skill or the availability of workers. For example, I'll cite our packing plant industry as one; some of our greenhouse sectors are others. As a consequence, we allocated just over a million dollars a year to work with Employment and Immigration to go over to the countries where there are available skilled workers, to sit down and recruit those workers to support the growth and development of our companies.

I can't give you an actual figure in terms of their contribution to our economy, but knowing roughly a number of the businesses that do have many foreign workers, several hundreds of millions of dollars of gross income generated in the agriculture sector come through either food processing facilities or primary operations like feedlots and greenhouses that depend primarily on temporary foreign workers to staff their operations. Of course, those workers are very happy to receive the funding they do and frequently want to come back as often as they can.

Mr. Benito: My supplemental question, Mr. Chair. I'm not sure if he can provide the answer right now, but later on if he could provide the answer. Out of those Filipino foreign workers who are working right now in the farm areas – you know, the 29 companies and one industry association, including 20 Alberta processors – do you know by any chance or can you find the information on how many were able to successfully apply for the nominee program under the AINP?

Mr. Knapp: Mr. Chair, we'd happily find out. If I understand, you wanted the breakdown in terms of the Philippines as country of origin for the number of workers who became successful candidates under the immigrant nominee program.

Mr. Benito: That is correct.

Mr. Knapp: We will find that information.

The Chair: Just a reminder, Mr. Knapp: through the clerk to all members of the committee.

Mr. Knapp: Thank you.

The Chair: Thank you.

Mr. Kang, please, followed by Mr. Elniski.

Mr. Kang: Thank you, Mr. Chair. From the October 2010 AG's report the Agriculture Financial Services Corporation has a department that is responsible for policy and program cross-compliance and investigations, PCCI. This business unit was created to review the accuracy, reliability, and integrity of information provided to the corporation by customers. In the Auditor General's report on page 125 the program needed to clarify its role within the corporation and improve its processes for working with other program areas. One point for improvement was establishment of clear criteria for referring files to policy and program cross-compliance and investigations. Compliance audits and investigations involve a significant use of resources. What criteria are in place now to decide when there should be an audit or investigation?

Mr. Jacobson: Mr. Chairman, this area was newly created in about 2006, and previous to that, the insurance area always had an investigative area that examined where it was suspected that grain was not being properly recorded to insurance. In 2006 we ex-

panded that role to also take over part of the area around cross-compliance. We probably underestimated the complexity of that whole interaction, and coming out of the Auditor General's report, we took and actually put several policies together to provide additional guidance to staff around that, mainly focusing on three areas.

The first is under the actual selection of files, where we clarified the three ways that files are investigated. One, through external sources, where basically complaints or tips come in, to put a little bit more due diligence around the preliminary analysis of those. We put a detailed document together that actually guides staff who are working on different claims on areas to observe as they're going through. So if they suspect misrepresentation or if noncompliance between programs is happening, they are given guidance on how to take and move files forward.

The last area is an improved data mining process that we took and implemented around mining the actual existing data for consistency between programs, identifying a risk-based approach for high-risk files in order to accomplish that.

The last thing that we did around this was implement an authorities document, that provided authority to staff and management for key decision points through the life of an investigation on a file so that consistent decisions were made. Business lines were involved to ensure that policies of the programs were being applied consistently through that. Then the final meetings with the clients had a clear outcome as to what was expected as well as authorities, then, for follow-up on collection should overpayments have been made.

Those are the processes that we went through in order to take and meet these recommendations.

Mr. Kang: Thank you, Mr. Chair. You may have partly answered my second question, but please elaborate a little bit more on this. The Auditor General had a long list of concerns about the operations of policy and program cross-compliance and investigations, including the methodology, the resolution of investigations, the practice respecting putting holds on payments to clients that are being audited, responsibility for collecting overpayments, et cetera. What has been done to remedy the problems reported by the AG about those concerns?

Mr. Jacobson: Mr. Chairman, when we put the authorities document together that guides the staff through the process, one of the key considerations we took and put in that was actually putting future claims on hold. It's a serious decision to make because you actually impact clients' future claims, but we have to have enough reliance on the investigation that if we believe misrepresentation has occurred, an overpayment will not be generated out. At that point is when we make the decision to actually take and put future claims on hold so as not to be sending money out at the same we're going to be taking collection action against them. So we built that directly into the authorities document to guide that process.

The Chair: Thank you very much.

Before we get to Mr. Elniski, we would like to welcome Mr. Anderson to the meeting this morning.

Mr. Elniski, please.

9:00

Mr. Elniski: Thank you, Mr. Chairman. Thank you very much, gentlemen. You know, I don't like to be critical of the agricultural world while I'm eating, so the breakfast is not lost upon me.

A couple of fairly straightforward and quick questions for you. I want to talk to you about your core business results around, first of

all, goal 4, excellence in food safety. Point 4(a) talks about the percentage of Alberta licensed abattoirs that have preventative systems in place in addition to their existing food safety programs. Now, if there is an issue that's of importance to people, I think, ultimately, that's probably one of the biggest ones, I mean, the downstream effect of a variety of influences on agriculture. I'd like you to talk to me for a moment, if you could, about goal 4(a).

Then, in particular, I'd also like to talk briefly about bullet 4(b), where it looks like your target was 135 – and I'm not really sure what the benchmark measure consists of – and your actual result was a 50, which is a dramatic change from the previous year. Either something changed in your matrix or, you know, something else went on there. If you could just kind of highlight those two for me, please.

Mr. Knapp: Well, thank you, Mr. Chair. If I could, I'd speak to the second point first, the difference in the matrix. If you read across 4(b), you'll see 148, 104, 135, and then 50, which looks like a big drop. In fact, that's a change in methodology reporting process. The results formerly were cumulative results based on new additions, new plants coming online, and the total sum. In the last year, where the 50 is reported, the methodology changes to just the actual number that year that came online. In fact, if you add that to the cumulative total, the cumulative total would increase. So it's a different reporting methodology.

In terms of your first question and the overall importance of food safety systems and preventative systems all of the plants in Alberta have a degree of what's called HACCP, hazard analysis critical control pathway. That's their way of looking at every individual step. In some plants there are over 200 steps in the food processing system. That's their way of going into those steps, looking at each point where a pathogen or some type of contaminant could possibly enter the food chain and responding with corrective systems and backup systems. All our plants meet very, very high standards for food safety. In fact, our meat inspectors, for example, inspecting those plants are extremely diligent, well-trained individuals.

Where we're going with this as the bar tends to increase over time and as we move towards interprovincial movement of provincially inspected meat through 19 pilot projects across Canada is an ever-increasing raising of the bar and, as a result, an ever-increasing need for those facilities to undergo more training and more certification.

Mr. Elniski: Thanks. Just a bit of a follow-up question to that. Under expenditures for this particular category is surveillance support, which I would assume would tie into, certainly, the analysis of the HACCP. I see your authorized budget for last year was around \$10.8 million and that you spent about half that. What was going on there?

Mr. Knapp: Actually, Mr. Chair, that surveillance support is direct assessment of live animal health issues, including things like surveillance for BSE, or the prion-based disease, in livestock. What happened over this past year is that our veterinarians working with the OIE – that's the World Organisation for Animal Health – put in place a new, more sophisticated methodology, which includes sampling higher numbers of nervous suspect animals, which is where you'd find BSE if you were going to find it. As a consequence, we were able to lower the number of samples in their surveillance system and actually increase the efficacy of the system as the world views it.

Mr. Elniski: Good. Thank you.

The Chair: Thank you.

Ms Pastoor, please, followed by Mr. Sandhu.

Ms Pastoor: Thank you, Mr. Chair. The ag societies and the exhibitions really are the heart of our heritage and culture. They created this province, and many have existed for over a hundred years. It has been changed from Culture to your department now, so I wanted to know how many dollars came with that change. My understanding is that there have been cuts in the operational funding. I'd like to point out that many of these organizations are operating on very well-frayed shoestrings, and I would like to know what you're going to do about that.

Mr. Knapp: Thank you, Mr. Chair. I appreciate the question. Of course, I've had the pleasure of sitting at the Lethbridge exhibition with the hon. member here as we discussed some of those very issues.

We view the roles of the two major fairs, the Calgary Stampede and Edmonton Northlands; of the seven regional fairs, which does include Lethbridge; and of the 286 C-class agricultural societies as absolutely critical to the cultural growth and development and the rural development of this province. We have not reduced the budget for the 286 C-class fairs at all. In fact, there were several top-ups over the past few years as we were able to. In addition, we provided \$715,000 to those 286 fairs for farm safety programs, which was unexpected.

Your direct question in terms of the transfer in this new fiscal year, the '11-12 fiscal year, of the budget for the seven regional fairs and the two major fairs: there has been a 1 per cent budget cut that accompanied that transfer. Right now we've been in contact with all of those organizations both through conference calls and meeting with them directly. Fairs, again, like Lethbridge, one of those seven regionals, have made a point to us about the pressures they are facing. We are in active discussion with them to have a look at what we can do to try and address those concerns over the coming year.

Ms Pastoor: With those remarks, it looks like for '11-12 there will be that 1 per cent budget cut. You know, 1 per cent: usually most people blow that off as coffee money. However, for particularly the B-category organizations it's a huge amount of money. I guess what you're telling me is that we have to wait until '12-13 before we can look at a change. Or is there some money that might be available to help out these organizations?

The Chair: Hon. Member for Lethbridge-East, we are dealing with the financial report from 2009-10. We are not looking at budget estimates, so please note that whenever you are questioning.

Would you like to respond to that quickly, Mr. Knapp?

Mr. Knapp: I appreciate the comments of the chair. I'd be happy, actually, to respond to that very important question. Again, we take very, very seriously our relationship with those seven regional fairs. They're absolute pillars in their communities. They attract a huge amount of business activity to their communities. In fact, in order to get the grants, they have to have a certain number of ag-focused days.

One of the discussions we're having with them right now, which we believe will help in that process, is that the ag days don't include what we would call rural development days, so we believe we can sit down with them and work out a process where ag and rural development constitute the credit necessary to lever that funding.

In terms of additional funding at this stage I think we have to go through the discussion with those organizations. You know, new funding is always difficult to find, but the discussion we're having is making it very clear from them to us just how valuable they are in terms of contributing to those communities, and we are certainly taking that under advisement.

Ms Pastoor: Thank you very much.

The Chair: Thank you for that.

Mr. Sandhu, please, followed by Mr. Chase.

Mr. Sandhu: Thank you, Mr. Chairman, and thank you, Deputy Minister. My question is around international trade. You briefly mentioned national and international, and you were talking about China. Last year we had gone to India. Where I was born, the state is agricultural. The discussion that I was a part of – I met with the Premier and Deputy Premier over there – was about food processing. I'm looking at your ministry budget 2009-10, page 78. Your budget was \$1.7 million for international marketing; you only used \$1.2 million. You didn't use half a million dollars. What are we doing with trade? Are we going further in that direction with the policies?

9:10

Mr. Knapp: Thank you. Well, Mr. Chair, if I could, in particular, we are recognizing that between India and China over the next decade this province and this country will have the capacity to trade with 100 million individuals who've moved from, probably, a position of lower income up into the middle class or higher class and, as a result, have disposable incomes where they want higher quality proteins, including our meat proteins, more specific caloric diets, and a generally better menu in front of them.

In fact, right now, as we speak, we have a delegation of our staff in India visiting with a number of different Indian subnational jurisdictions. The reports coming back from that indicate that the number one crop that India is interested in right now is our pulse crop. That's peas, beans, lentils, dried beans, and so on. Second, of course, is canola, which everybody in the world is now wanting. Third, is some of our different products, including things like lamb and so on.

There is no question that although the numbers there report specifically just to the staff complement, which was reduced as a result of a budget transfer from another department – that was the year in which staff were transferred from International and Intergovernmental Relations to Agriculture, and those are staff specifically focused on the international trade file. We have subsequently merged that group with another international group and expanded, rather than contracted, our activity on that front. So what you will see is probably more than a doubling of very intensive activity focused on trade.

India along with China are now the two trade destinations that we've been putting the most emphasis on over the past year. I should note that, in addition, the United Arab Emirates, including especially Dubai and Abu Dhabi, have been making significant overtures to us on the grain trade.

Mr. Sandhu: Well, thank you very much. Just a supplemental. I guess, you know, your team is already there, and they will bring you a report. How long will it take to move forward with the next step once you get the report?

Mr. Knapp: That's a very good question. What we do as soon as a team reports back is sit down and have what's called a postmission debrief. The last postmission debrief we did was followed up

with 41 specific actions, over 20 of which we've already implemented.

What will likely happen is that governments will go in and tend to open doors. That will be followed by specific business-to-business trade discussions. So those staff that reported on that report will put together a sort of mission that involves 10, 12, 15 businesses. Those businesses will go over probably this spring or this summer and visit with specific Indian businesses who've been brokered through the contacts our government staff made.

What we're finding in those business-to-business ventures is that sometimes as much as \$10 million of trade suddenly happens because someone finds a product. I'll give you an example. This one is more germane to Japan. The Japanese just love our honey. We sent a mission over there to meet with Japanese honey producers, and now they can't get enough of it. One of the reasons they can't get enough of it is that they're selling it at \$15 to \$20 a pound in Japan. So it's a product.

What we're finding as well – the minister was on a mission that some of us were on in October to China and Japan. We saw a difference – and this in part, Mr. Chair, is maybe based on what we're beginning to see for the first time – that saw food security rise up the agenda. For the first time when we were in China and Japan, we didn't say, "We've got product; would you like it?" and we didn't receive, "Well, what can you do for us in price?" What we got was: "Hey, we've been your loyal customers. Don't go trading with those other guys because we need your product." So we're beginning to see the food security issue assert itself, and I believe that we'll begin to see that with India as well.

Mr. Sandhu: Thank you.

The Chair: Mr. Chase, please, followed by Mr. Allred.

Mr. Chase: Thank you. It's interesting to note that honey is creating an economic buzz in Japan.

Annual report financial statements. The farm fuel distribution allowance was up slightly in 2010, costing just over \$33 million. That's noted on page 44. My first question is: how has the delivery of this program changed over the past couple of years to ensure value for dollars, and has any review of the program resulted in proposals for change?

Mr. Knapp: Thank you, Mr. Chair. In fact, the Auditor General has been looking at that program for a number of years, and as a result of the Auditor General's report we took significant action two years ago to do two things. The first was to do a full registration renewal, so each year over the last three years, with this being the last year, we've asked every one of the 61,000 registrants under farm fuel to restate their eligibility and renew their registration. As a result of that, we've reduced the number of registrations from those who are retired or no longer eligible by more than 10,000 registrations. So that's been very significant in terms of managing the program.

The second thing we're doing is reviewing the program in terms of overall effectiveness and targeting, and that's a piece of policy work which is ongoing.

In terms of your specific point about the actual dollar numbers, those dollar numbers are based on the 6-cent-per-litre rebate on diesel fuel only, and that's based on the amount of diesel fuel used by farmers each year. So if you get a very large crop, it's very likely that more diesel fuel is burned, and as a result the numbers would go up. If you get a smaller crop, with earlier frost or poor harvest like we had in the fiscal year reported here, it's likely that less diesel would be used, and the numbers would go down. Those numbers tend to float with the crop.

Mr. Chase: Thank you. In the past there have been concerns that some of the individuals receiving the grant were suspect, so my second question, then: what checks are in place to protect the taxpayer from fraudulent activities occurring in relation to this fund? Are there any proposed changes to this fund to protect against the risk of fraud? You mentioned retiring farmers are being noted and, therefore, no longer receiving the grant, but other antifraud activities, please.

Mr. Knapp: Well, Mr. Chair, first of all, we work with a number of enforcement agencies, including the RCMP, including the Alberta sheriff system, and including transportation utilities, all of whom either through other investigations or through tips received get reports on potential fraudulent activity. We fully support those investigations. We do not directly conduct them. We're not an enforcement agency for that program, but we fully support them through full access to registration information, fuel consumption numbers, and so on. So that's one of the ways we approach that.

The second thing we do is that on a regular basis we are reviewing the files. Both through occasional data mining and through variants to fuel use we're watching for potential abuse in that program. We've got three very knowledgeable program staff who know both the producers and the program to the point that they can almost intuitively now spot variances that would require a follow-up. So those are the processes we use currently to ensure that the right dollars go to the right people in the right amounts.

Mr. Chase: Thank you.

The Chair: Thank you. Mr. Knapp, before we get to Mr. Allred, could you please provide details to all committee members regarding Mr. Chase's question? That was from page 82, schedule 8, that total expenses restated last year for 2009 for the farm fuel distribution allowance was \$29.3 million. That's lower than was budgeted. Can you give us a written explanation as to why that was lower, please?

Mr. Knapp: We can, indeed, Mr. Chair.

The Chair: Thank you.

Mr. Allred, please.

Mr. Allred: Thank you, Mr. Chair. I'm referring to the staff research report, which I presume you have a copy of. You probably don't have any problem answering the questions anyway. It looks to me from page 10 that the AgriInsurance program is 60 per cent funded by provincial and federal grants. Could you maybe just comment on that and describe the whole concept of the insurance program in general, please?

Mr. Klak: Thank you, Mr. Chair. It would be my pleasure to comment on it. AgriInsurance has been a very important part of business risk management structure in Alberta and across Canada for many years, and I think it's well respected by the producers. As you mentioned, it's a tripartite program: 60 per cent comes from two levels of government, the federal government and the province of Alberta, and producers participate with a 40 per cent share. It's been growing for a variety of reasons, but last year AFSC insured 13 million acres with \$2.65 billion in coverage, which is tremendous growth, which shows, really, that two things are happening: the value of that crop has been steadily increasing over the decade, and the inputs to producing that crop are also very expensive and are increasingly so.

9:20

When you look at a year like 2009-10, where we had a very

cool spring and we had a very, very dry year in a lot of areas of the province, that backstop protection that was provided through AgriInsurance program was pivotal. It ended up paying out – oh, we processed just over 6,700 claims, \$250 million in payouts. It was the second highest in AFSC's history in terms of the payouts and a loss-to-premium ratio of almost 80 per cent, 79.4 per cent, which is again our second highest. This shows that when producers are really looking at, you know, the vagaries of weather, the issues that they face, from a yield standpoint that's a very important program for them.

Mr. Allred: Okay. Thank you. My supplemental also focuses on hail insurance. Since I moved away from Red Deer, I haven't heard very much about hail. With the cloud seeding that was initiated, I believe, in the '60s and '70s, has the amount of loss from hail decreased?

Mr. Klak: There's very little cloud seeding going on. If you look at the research, without really getting into it, the research is very skeptical as to whether it actually reduces hail or whether it actually just pushes hail in different directions. If you look at our results, it would show that – I think the only area that there's any cloud seeding going on significantly is around that Calgary area, and it's the Calgary auto dealers that are still involved in that. But it sort of crescendoed; 2007, 2008, 2009 were our three largest hail years in history, and we've been offering hail insurance since 1938. So 2007 was \$177 million in payouts; 2008 was \$265 million, the highest level; and 2009 was \$171 million. When we go out to reinsurance markets and talk about hail, that question does come up, but you would see again with some of this increase in hail that you would say: well, then, what happened this past year? It went down to a much more normal ratio. So it has seemed to be that over those three years we saw a lot more hail.

You didn't see any more cloud seeding or any of that type of thing that was causing it. It just seemed to be some of the weather patterns. Again, the value of that crop, as I mentioned earlier, when it hits – I think in 2009 it hit our specialty crop areas and it hit the irrigated crop. That can be tremendously expensive if it, you know, goes at very high-yield crops.

Mr. Allred: Thank you.

The Chair: Mr. Kang, please, followed by Ms Calahasen.

Mr. Kang: Thank you, Mr. Chair. The annual report, page 31, goal 3. Like performance measure 2(a), performance measure 3(a) is meant to track the percentage of agricultural business managers surveyed, indicating the use of risk management tools for improved decision-making. In the description of the measure it is suggested that the effectiveness of risk management tools available is also tracked. How specifically does this measure track the effectiveness of risk management tools? Is it simply through response to a survey, or is there any further analysis of results?

Mr. Knapp: Thank you, Mr. Chair. This is a triennial survey that the department performs. Again, most of the tools being spoken to here are tools delivered by our agency colleagues in the AFSC. It's appropriate that the agency not survey itself, that a third party, or an arm's-length party, do that, so that survey is conducted independently by the department.

What the survey indicates is that risk management tools are viewed by most producers, especially younger producers, as key tools in their business management. One of the reasons we're finding under the survey that's driving that view of those tools, that is very key, is that bankers are increasingly demanding or

asserting that individuals who are leveraged support that leveraging through the use of tools like participation in AgriStability, which, of course, is an income stabilization program based on an Olympic average; through tools like AgriInsurance, which, of course, is a production stabilizing program; and through tools like AgriInvest, which is a direct federal income-matching program. Bankers are clearly saying that if you're backstopped by those, the likelihood of your making payments on time, in full are much greater than if you don't use those programs.

In terms of the measurements here under performance measure 3(a) 687 randomly selected farmers participated in the survey, and statistical calculations give you a 95 per cent confidence interval. Respondents for this survey were selected from a list of commercial farmers. Agricultural business managers refer to active primary producers who are the most responsible for their farms and whose gross income is \$50,000 or more. Given the average inputs of farms, \$50,000 would probably be a small farm. Larger farms and very large farms were also surveyed.

Mr. Kang: Okay. So you literally covered everybody there.

Performance measure 3(c) is the percentage of Alberta farm cash receipts represented by Alberta participants in the AgriStability program, page 32. Can you please explain in more detail how exactly this performance measure provides evidence regarding the effectiveness of the AgriStability program as a risk management option?

Mr. Knapp: Yes. Mr. Chair, I'd be happy to respond to that. AgriStability is the core income stabilization program based on all the things that can go wrong with access to markets, with prices, with the cost of inputs, with diseases, with border closures, and all the different slings and arrows that farmers are subject to. What that program does is provide stabilization so that when your income goes up, you're covered. You build your margin. When your income goes down, some of the valley is levelled out by the payment.

To speak directly to your question, hon. member, the reason the measurement is as it is is that the more producers who participate, the higher percentage of total farm income in Alberta that's actually covered by this and the more likely that the broad base of agricultural income in the province is covered by a stabilization program. In other words, for this industry, that I've suggested is the second largest in the province, the higher the participation rate, the more likely that industry will be stable into the future. That's why the measure is set as it is.

The Chair: Thank you.

Ms Calahasen, please, followed by Ms Pastoor.

Ms Calahasen: Thank you very much, Mr. Chair. On page 87 of the annual report, looking at the statements of operations under Agriculture Financial Services Corporation, I look at the expenses, and there seems to be a variance of nearly \$200 million in indemnities. The budgeted indemnities under that are \$731 million while the actual amount was \$927 million. Can you tell me why there is that variance there?

Mr. Klak: Thank you, Mr. Chair. As I mentioned previously, 2009 was one of the worst production losses that we'd seen in Alberta in a long, long time. What we do in terms of, you know, crop insurance indemnities and forecasting is an estimate. We take a long-term average, and we put a number in that we think reflects what the indemnities are likely to be, but we don't know until we get through that crop year, again, what slings and arrows of agriculture are going to happen, whether it's going to be a dry year, a

drought year, a wet year. We need those dollars to reflect what actually happened on the farm, and 2009 was, indeed, a very challenging year for our producers.

Ms Calahasen: It was in ours, too. I had such a variation in my constituency. That's a huge concern when we're talking about crop insurance. Are all these indemnities for crop insurance? How are they funded?

Mr. Krishnaswamy: The indemnities include not only just the crop insurance; it also includes indemnities under the AgriStability program, that we talked about earlier, and it also includes indemnities under the straight hail program.

Indemnities are funded differently for different programs. For example, in the case of the AgriInsurance program indemnities are funded by the premiums collected. Of course, we talked about the premiums being collected from the producers as well as the two levels of government. So the premiums fund the indemnities whereas in the case of the AgriStability program the indemnities are funded within the federal and the provincial governments, and the ratio is 60-40. We also have indemnities included under the wildlife compensation program, where again the indemnities are shared between the federal and provincial governments on a 60-40 ratio. So indemnities are funded differently for different programs.

9:30

Ms Calahasen: Thank you.

Thank you, Mr. Chair.

The Chair: Ms Pastoor, please, follow by Mr. Fawcett.

Ms Pastoor: Thank you, Mr. Chair. The protection of agricultural land, in my opinion, is paramount, and Alberta is one of the few without legislated protection. The annual report refers to the ministry's efforts to ensure that agricultural perspectives, concerns, and inputs were reflected in the outcomes and objectives of each regional plan on page 17. I guess my question is: how do you determine the success or failure of efforts to prioritize agriculture, and how is this success or failure analyzed given the lack of progress on drafting the regional plans? You're trying to do something based on something that hasn't occurred. I understand the complexity of trying to do that, but I'll go back to my mantra that I use all the time, that 40 years ago, I guess, I watched Beaumont grow and watched some really excellent agricultural land be cemented under, losing good dairy farms. I've always used that as sort of my example of something that I think went awry.

Mr. Knapp: Well, Mr. Chair, that particular question is one that we are looking at very, very closely within the department right now and within the context of deputies who get together on land-use framework planning. First of all, we are carefully tracking the amount of land that is converted from agriculture due to two reasons. One is fragmentation, where tongues of development, or acreage development, essentially sterilized the use of the land between those tongues from either intensive livestock development or some other crop uses. The second is the actual conversion of agricultural land, which is the example the hon. member gave, where land is taken out of agriculture and converted, essentially, to industrial or urban development.

Our tracking of that shows that over the last 14 years .4 per cent of the agricultural land base in the province has been converted. You might look at that and divide .4 per cent by 14 and say: "Well, that's not much. Why are we worrying?" We've done a deeper level review of that, and in fact the amount of CLI, Canadian land inventory, class 2 and 3 land – those are our best soils,

the soils around Beaumont in your example, hon. member. In fact, .8 per cent of that land has been converted over the last 14 years. As most folks who travel the Edmonton-Calgary corridor could see, probably a higher percentage of that high-quality land has been converted.

There are two ways we're tackling this problem. One, in terms of maintaining the quality of our agricultural land base, is to ensure that the land that is not being converted, first of all, maintains its tilth and its heart. Our soil conservation programs, especially our support for the adaptation of minimum or zero tillage, have in fact resulted in a halting of the loss of organic matter from prairie soils. Our best black soils have about 6 per cent organic matter. Our really grey wooded gumbos have about 2 per cent organic matter. In fact, they have reversed that trend. When you minimum or zero till, what you're doing is essentially leaving the crop residue and the root mass from last year – you're not breaking it up – and converting that humus into actual nitrogen available for the plant. As a consequence we're building the black humus or organic content of that soil.

In addition on that first point, this ministry has been a global leader and is recognized globally for putting in place UNFCCC protocols, which are basically the measurement tools you'd need to say: we certify that you have indeed sequestered carbon in your soil through changing your practices. One-third of all the carbon credits used by our large final emitters to comply with the 12 per cent reduction of carbon emissions now come from agriculture. So agriculture is now a major contributor and a growing contributor to sequestering carbon in our soil.

In terms of specifically the land-use planning piece and so on what we are doing is working actively with Municipal Affairs on some potential policy options relating to the fragmentation and conversion of agricultural land. As you'd imagine, this an emotionally fraught discussion. For anyone to say that your land is worth a million and a half per quarter section today and worth one-third of that tomorrow because we've drawn a line is, obviously, a very difficult proposition.

We think the regional plans are the best tools for citizens and in this case farmers in rural municipalities to determine the future of agriculture in their area. We believe that many rural municipalities will want to take steps through those regional plans to ensure, as some other jurisdictions have done, that there are certain blocks of land whose use is designated as primary agriculture. Through that designation the development of other activities on that land is not likely to occur. So it will protect that land for future generations.

Ms Pastoor: Thank you very much.

The Chair: Thank you.

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

Mr. Fawcett: Thank you, Mr. Chair. As an inner-city Calgary MLA I always feel like a fish out of water when you guys come, but I'll try my best here with some questions. On pages 18 and 19 of the annual report you reference the Alberta irrigation efficiency program and the irrigation rehabilitation program. Can you provide us with an explanation of the key differences between these two programs?

Mr. Knapp: Thank you. Mr. Chair, I'd be happy to reference both of those programs. The largest program is the second one you referenced, and that's the irrigation rehabilitation program, which normally is a \$24 million per annum grant spread out through the oversight of the Alberta Irrigation Council to the 13 irrigation districts in Alberta, under which about 1.2 million acres of land are irrigated. The key for those districts is the efficient conveyance

of water from the main sources, which usually are very large lagoons, to the individual fields. Those conveyances are done overwhelmingly through canals and increasingly today through pipelines.

The cost of maintaining those canals is analogous to 13 municipalities maintaining a road network in their municipality. The relining of those canals to avoid seepage, salinization of the soil with sodium sulphate, reduced evapotranspiration, all of those things – those canals are absolutely critical infrastructure pieces. Those districts are required by us to maintain a report. In fact, when compared to neighbouring jurisdictions, for example Montana to the south, the state of maintenance of those districts, it's night and day. Those districts do an outstanding job. Ninety-odd per cent of those canals are either in excellent or good to fair condition. As a consequence we have highly efficient use of the very precious water that flows through them. So that's the irrigation rehabilitation program.

The first program you mentioned, which is the irrigation efficiency program, is a federal-provincial program which supports individual producers in their attempts to be more efficient in water use. When that land was first irrigated in southern Alberta, about 110 years ago, the irrigation was flood irrigation. That tended to use about 30 inches of water per acre, so 30 acre-inches of water for every acre of land.

Through the use of things like, first, a rolling irrigation, a wheel-move irrigation, followed by centre-pivot irrigation, that's been reduced to about 20 inches. Now producers are using very low-pressure irrigation systems, which is analogous to a droplet-type system with larger droplets, that are less blown away by the wind under lower pressures, that actually fall more like natural rain. As a consequence, in some areas they've reduced their annual usage to about 16 inches of actual water. So, actually, a higher volume of crops, because we've got better varieties now, are being grown by half the water that we historically used.

This program, the first program you mentioned, supports farmers in the conversion, the technology, and the understanding to get to those more efficient systems.

Mr. Fawcett: Thank you, Mr. Chair. I appreciate that detailed answer. In fact, it answered my supplementary question.

The Chair: Thank you, Mr. Fawcett.

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

Mr. Chase: Thank you. We'll have to update the song: listen to the rhythm of the falling irrigation.

The Auditor General's report October 2010, Agriculture Financial Services Corporation, specific loan loss allowance. In his annual report, pages 122 and 123, the Auditor General considered the way the Agriculture Financial Services Corporation calculates losses in its loan portfolio, which amounted to \$7.5 million at the end of the last fiscal year. The AG recommended improvements in calculating the losses on impaired loans. My first question. The AG found in some cases that the corporation was not complying with its own policies. Policies exist to ensure sound business processes. Therefore, what is the corporation doing to ensure that its policies are followed?

9:40

Mr. Klak: Thank you. Mr. Chair, we agree with the recommendations from the Auditor General. We're just in the finalization of reviewing the criteria, the guidelines, and the processes involved in impairing loans and then setting up allowances. The changes to further improve processes will be implemented by the end of this fiscal year – we're confident of that – in conjunction with a new

loan accounting module, which is actually in place right now. We switched our entire sort of financial backbone to an SAP structure, which long term is going to be helpful. But in any kind of significant changeover we want to make sure that the transference is 100 per cent.

Just to put it into perspective, though, Mr. Chair, we take it very seriously, but of the total AFSC loan portfolio of about \$1.3 billion over 10,000 accounts, this specific allowance is \$7.5 million over 31 accounts. So it's about .5 per cent of the corporation's loan portfolio. But we fully respect that and strive for as much accuracy when we're quoting that loan loss provision, which is an estimate. I think I should also mention that none of these issues identified are ultimately going to affect the actual losses incurred. It's, again, an estimate of what that loan portfolio is going to do.

Mr. Chase: Thank you. The AG warned that inaccurate calculations were the result of a lack of effective review. He further warned that inaccurate calculations of loan losses could result in misstated financial statements. What is the corporation doing specifically to ensure effective review of the calculation of the losses on its books? How has your methodology changed to account for this?

Mr. Klak: As noted in the report, most of the systems we corrected during the process. Review on all the items are ultimately and properly reflected in the year-end financial statements.

The previous method that we were using, you could say, was highly subjective. We were using 85 lending officers' subjective opinions of whether and how and when a loan should be impaired. What we said, and we agree with the Auditor General, is that in order to make sure that we have a much higher degree of accuracy and efficacy, what we want to have is procedures and processes in place. In terms of developing those procedures, making sure that we embed them into the systems and the new systems that we've developed and then auditing back against that to ensure absolute compliance is how we've accomplished it, Mr. Chair.

The Chair: Thank you.

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

Mr. Benito: Thank you very much, Mr. Chair. On page 27 of the annual report you referenced farm safety. When I say farm safety, I mean children's farm safety in rural and agricultural areas. This also means safety issues for workers in production agriculture. I'm thinking about the two men electrocuted in a farm accident on a Thursday night, December 7, 2010, who have been identified as 62-year-old Peter Berezanski and 54-year-old Randy Kowalchuk. I'm talking about the circumstances that claimed the life of a 25-year-old Airdrie man in the week of November 30, 2010, at a farm near Torrington. My specific question to you is: what programming and support was provided by ARD to increase awareness of farm safety?

Mr. Knapp: Well, Mr. Chairman, firstly, the loss of life or the injury of any human, whether it's in an industrial setting or an agricultural setting, is very unfortunate, and we take those situations, the safety of both adults and children on the farm, very, very seriously indeed. A farm can be a dangerous setting in the sense that you have very large, powerful animals like bulls and stallions, you have half-million-dollar pieces of machinery, you have situations that require a general awareness and alertness as to safety. Our view is that no amount of legislation will cause, necessarily, that level of awareness or alertness. When I say "our view," we're basing this on consulting with 50,000 individual farms or with the organizations that represent those 50,000 individual farms.

What they've told us overwhelmingly is: we'd like to work with you as a government, and we would like you to redouble your efforts to educate children and adults on-farm about safety procedures and awareness. We've responded to that by putting in place an Alberta farm safety council, which was just announced recently. That council is co-chaired by Page Stuart, who is a lady who runs a very large beef operation in northeast Alberta, and by our own Assistant Deputy Minister Jason Krips, who's here with us today. Fifteen Albertans have been appointed to that council, who represent very accurately the farms and ranches and farm safety organizations like the Alberta farm centre in Raymond, to work more proactively and to advise this government on the programs it should put in place.

In addition, as I mentioned previously, the minister put in place \$715,000 for ag society farm awareness. Again, 286 agricultural societies, who are intimate parts of the agricultural tapestry in their communities, are a very effective way to increase awareness. In addition, we spend several hundred thousand dollars a year in farm smart programs and the Safety Up! programs. Those programs are targeted at children, especially children in the grades 1 to 6 category. What we're finding is that those children, if you can get farm safety awareness embedded at an early stage, not only are safer as adults; they actually work on their parents on farm safety procedures. So working through children has been a very effective way of increasing our farm safety program awareness.

Mr. Benito: A supplemental question, Mr. Chair. Can you provide us with a status update on the recommendation to create an agriculture health and safety organization, please?

Mr. Knapp: Yes, I can, Mr. Chairman. I'd be happy to. When you say an agriculture health and safety organization, I think what you're probably referring to is something that looks broadly and encompasses farm workers, farm producers, farm safety organizations, and government organizations into a body that in an integrated fashion and in a cohesive, hopefully unanimous way looks at and develops programs that will be to the benefit of all workers and individuals on farms, especially our children. The farm safety council will be the group through which we produce that integrated effort, that will lead to stronger farm safety programs, stronger than the current very large effort we're making in Alberta today.

Mr. Benito: By the way, Mr. Chair, Peter Berezanski was 62 years old, not 52. Thank you.

The Chair: Okay. Thank you very much.

Mr. Kang, please, followed by Mr. Allred.

Mr. Kang: Thank you, Mr. Chair. In the annual report research and development is an important function of this ministry and is important for the future growth of our agriculture industries. R and D is referred to in a number of places in the annual report. Can you provide some details regarding how programs receiving funds through Alberta Agriculture and Agriculture Financial Services Corporation for research and development are analyzed for success or failure, sir?

Mr. Knapp: I'd be happy to do that, Mr. Chair. The first thing we do is that very frequently we do an overall assessment of the impact of research and development on the growth of agriculture. In fact, we've connected with the OECD, the global organization, which has 37 member nations who pay a percentage of their annual GDP as part of their membership. Those 37 member nations employ about 2,100 economists as analysts. Of that 2,100, about 70 are agricultural. We've connected with them.

What they are telling us is that those nations or subnational jurisdictions that invest more heavily in research and development are gaining more global market share on the agricultural trade scene both in terms of commodity trade and for their processed trade. The evidence globally is pretty clear, in our view, and that's that investment in research and development will definitely build your position in the future for trade.

Secondly, we frequently do analysis of the ROI, return on investment, from both public- and private-sector investment in research and development. As a result of that, we're getting varying returns. The lowest of them is about 19 to 1; the largest return is over 40 to 1. In other words, public investment in research and development will yield an economic stream over time that is a return on investment of about 40 times the original investment.

9:50

Now, in terms of the actual results some of our investigation into research and development caused us to put in place an agricultural value-added centre in conjunction with the University of Alberta, which is now beginning to look at agricultural products, fractionated products, and indeed some of those fibres that I mentioned earlier, that will lead to car dashboards and other products in your homes being made of agricultural plants. There's no question that the efforts that we're making as a ministry result in high levels of return for research and investment.

Mr. Kang: My supplemental is: what kind of money is going into that as investment, and what measures are in place to ensure that we get the best possible value for the money?

Mr. Knapp: There are a number of measures that are put in place, Mr. Chair. Every individual research grant has a process, especially where federal Auditors General are involved, where we have to audit the efficacy of the grant program overall. At the program level research funding is audited.

Secondly, a large amount of our research funding – and I would cite, for example, our world-class barley breeding program at Lacombe. A lot of the money that comes to that program comes from individual industry. The degree to which industry says, “We like what you're doing; we want to put our money into it” – and when I say “industry,” these are producer organizations like barley producers, for example, or triticale producers across Alberta. When they put large amounts of funding into those programs, those are sort of intuitive measures that they have faith in the researchers and see value in the programs.

Other ways of measuring those programs are the testimonials we receive. We were at a meeting in Trochu yesterday, where we had a number of farmers in the room stand up and say: “We want you to not only continue but increase your crop breeding programs. They are hugely important to us maintaining our competitive edge.” The types of things that the farmers, who are the beneficiaries of those programs, say on a regular basis are another measurement tool we use.

Finally, Mr. Chair . . .

The Chair: Thank you. I don't mean to be disrespectful, but we must move on.

Mr. Knapp: Thank you.

The Chair: Mr. Allred, please.

Mr. Allred: Thank you, Mr. Chair. Like the agricultural fairs, irrigation has been a hallmark of the agricultural industry in southern Alberta for over a century. Do you have any idea what

the economic benefit of irrigation is? Has there ever been a study, an analysis of that?

Mr. Knapp: Thank you, Mr. Chair. In fact, there have been a number of studies. If you look at the 1.2 million acres of irrigation that are managed by our 13 irrigation districts plus the roughly 300,000 acres of private irrigation, most of which is in southern Alberta, some of which is in the Red Deer and Edmonton areas and some of which is up in the Dunvegan area along the banks of the Peace River, if you roll all of that up together, irrigation probably adds an economic generator of about a billion dollars to our economy. When I say “economic generator,” that's the increased value of the crops, the businesses, the irrigation supply firms, the maintenance companies, the trucking that results from producing actual crops and so on, the technology firms, and the irrigation engineering firms, especially in southern Alberta. We're pegging it at about a billion dollars.

Mr. Allred: My supplemental to that: what would that be as a cost-benefit ratio?

Mr. Knapp: The cost-benefit ratio: again, it depends on how you do your math. One of the ratios we use is that 4 per cent of the agricultural land in Alberta is irrigated, and it produces 20 per cent of the total crop in Alberta. If you look at that in terms of the impact of having access to water, it's huge.

One of the things that's difficult to manage is drought. What you find during drought years is that the yields on dryland crops, which is the other 96 per cent of land, vary enormously. During drought sometimes yields on irrigations are comparable to or often higher where drought is accompanied by heat. The policy of supporting irrigation in and of itself constitutes a little bit of an insurance program, which guarantees production and, in fact, reduces reliance on some of the income stabilization programs. It's another way of investing in the stability of agriculture.

Mr. Allred: Thank you.

The Chair: Mr. Knapp, in light of the hour we're almost out of time. There are still questions from members. Unfortunately, we're going to have to read them into the record, and if you could provide through the clerk to all members a response in a timely fashion, we would appreciate it.

We'll start with Mr. Elniski, please.

Mr. Elniski: Actually, we'll speed it right along, Mr. Chair, and I'll pass. Thank you.

The Chair: Okay. Mr. Benito.

Mr. Benito: Thank you very much, Mr. Chair. On page 24 you reference the ministry's work on traceability. Can you provide us with an update on traceability?

My supplemental to that: what work was done in 2009-2010 toward the implementation of a mandatory comprehensive national traceability system for livestock and poultry by 2011?

Thank you very much, Mr. Chair.

The Chair: Thank you.

Mr. Chase, please.

Mr. Chase: Thank you. Alberta is the only province that doesn't provide farm workers or their families with compensation in the event of injury or death. In the past fiscal year, other than the creation of a farm safety council and school awareness programs, what

has your ministry done to support workers who have been injured or their surviving family members?

Secondly, because occupational health and safety doesn't inspect agricultural sites over safety breaches, what inspections, if any, does your ministry carry out to ensure farm worker safety?

The Chair: Thank you.

Mr. Kang, please.

Mr. Kang: Thank you, Mr. Chair. This question was partly discussed. This is regarding food safety. This is another recommendation that has been outstanding for a long time. It was in the 2006 annual report. My first question. The AG made a number of recommendations with respect to business processes, including monitoring the impact of surveillance projects. Can you tell us what projects Agriculture currently has under way in its food safety surveillance program and what it is doing to monitor the impact of these projects?

The supplemental question. The Auditor General has recommended that Agriculture consider the need for regulatory support for a food safety surveillance program. Can you tell us what action Agriculture has taken on the issue of regulating in this area and what stakeholders have been consulted on this issue?

The Chair: Thank you.

Any other members with questions?

Mr. Knapp, on behalf of all members I would like to thank you

and your department officials for your time and attention this morning. I must say that you were very well prepared. You certainly know your department.

Ms Calahasen: He knows his stuff.

The Chair: Yes. You know your stuff, and it shows.

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

The Chair: We have other items on our agenda. Please feel free to go.

Mr. Chase: If you'll excuse one more pun, I would suggest that Mr. Knapp is an outstanding man in his field.

The Chair: With that, have a good year.

Mr. Knapp: Thank you.

The Chair: Okay. Members, are there any other business items that you would wish to bring up at this time? I don't see any.

I would then remind you that our next meeting will be with Alberta Energy on Wednesday, March 23, from 8:30 to 10.

Is it possible, please, to have an adjournment motion? Mr. Allred. Thank you. A motion that the meeting be adjourned. All in favour? None opposed? Thank you.

[The committee adjourned at 9:58 a.m.]

