

10:02 a.m. Wednesday, December 7, 1994

[Chairman: Mr. Dunford]

MR. CHAIRMAN: Okay. I'd like to call the meeting to order at 10:02 in the morning time. Excuse me, sir?

DR. NICOL: You're two minutes early today.

MR. CHAIRMAN: Hey, if you're going to discuss agriculture, you've got to be up early in the morning. We're talking about the future of the province here, not the past; right? All right.

Now, to begin proceedings, would any member like to read a recommendation into the record? All right.

This morning I would like to extend a welcome to the minister of agriculture, the Hon. Walter Paszkowski. We, of course, are here to ask questions and hear your comments about the '93-94 Alberta heritage savings trust fund report, but I should indicate to you that with your co-operation we have allowed some flexibility in terms of questioning just in the interests of providing members from both sides of the House information. However, I do reserve the right as the chair that if it gets itself extended too far beyond the terms of reference, I will call certain members to order at that particular time. The questioning will alternate from the opposition members to government members, back and forth. We've been allowing one question with two supplementaries, but quite frankly, sir, it really means three questions each time the individual member has been called. We'd like to open the proceedings with you introducing your guests and then whatever opening statements you wish to make, and then the questions will start when you've completed those comments.

MR. PASZKOWSKI: Well, thank you very much, Mr. Chairman. It's a pleasure for us to be part of your morning activities. We're very pleased to have the opportunity to represent agriculture. We consider it the dominant industry in this province, and we look for it to even become more dominant through the years.

First of all, I'd like to take a moment and introduce the members of our staff who are here as resource people and may indeed be answering some of the specific questions. Yilma Teklemariam is the research manager. Yilma is to my left. Brian Colgan is the director of irrigation and resource management. Mr. Radke, of course, is our deputy minister, and to my right is Bob Splane, chairman of Agriculture Financial Services Corporation. Dave Schurman is with AFSC as well, and John Tackaberry is the director of the rural development division with our department. So those are the people that are here and will no doubt be assisting us in answering the questions as they come forward.

Of course, we're going to be talking about the heritage trust fund and the role it plays in agriculture, and it is an important role. Even though it only covers I believe four sectors, it nevertheless contributes very significantly to the development of agriculture and has done that through the years. The fund has undertaken many agricultural programs in the past that continue to play a vital role in the diversification of our economy, and I believe its achievements fit well with the original purpose it was designed for in 1976.

Mr. Chairman, last year when I spoke to you and the committee, I told you that agriculture is Alberta's future, and I want to compliment you for remembering that. Indeed, it's not our past. It is our future, and that's the way we treat agriculture. We firmly believe it will continue to grow as rapidly or more so than any other industry in this province, and it is, I want to remind everyone, a renewable resource. This statement, of course, becomes

increasingly more true each year, and the programs we'll be discussing contribute very significantly to the growth and the opportunity of this industry.

First of all, I would like to spend a moment, Mr. Chairman, with your permission, talking a little bit about Farming for the Future and the role it plays in agriculture. It does play a vital role in two major areas: the research component and the on-farm demonstration programs. The research program funds research aimed at needs and opportunities of the agricultural and food industry, and the on-farm demonstration program provides grants for tests and demonstrations of research results that Alberta farmers can be kept abreast of as far as technical advances are concerned for the year.

Since 1979 Farming for the Future has awarded \$72 million to 777 research projects and 930 demonstration projects for an overall total of 1,700 projects. Projects supported relate to soil, water resource, crops, livestock, production, value adding, marketing, and those types of activities. The program results are energizing the province's agricultural industry, and that way we can better meet the ongoing needs or challenges that come forward. The strength of Farming for the Future is its emphasis on relaying the advances of agriculture research to the Alberta producers. It's an excellent process to communicate to the producers. In this regard the on-farm demonstration program has proven to be a unique extension tool. Under this program farmers, department specialists, and research scientists work together to demonstrate the needs and the values of agricultural research and the actions taken. The Farming for the Future program is administered by the Alberta Agricultural Research Institute, and under the institute's direction the program has generated a unique co-operative research effort among the producers, the private sector, the academic institutions, and the federal and provincial governments. It's a great opportunity for all of those groups to come together.

Mr. Chairman, the next program also contributes very significantly to the Alberta agricultural economy, and last year marked the third year of the five-year mandate of the irrigation rehabilitation and expansion program. The program benefits very clearly show in a 1993 irrigation impact study conducted by the Alberta Irrigation Projects Association. Irrigation activities in the province employ over 36,000 people and account for over a billion dollars of Alberta's gross domestic product, very significant: 36,500 people with somewhere over a billion dollars as far as domestic product is concerned. Since the program was first instituted in 1976, Alberta irrigation acreage has increased by 38 percent, a very significant number. As of March 31, 1994, a total of \$371 million has been invested in irrigation rehabilitation and expansion, and this program continues to support a reliable irrigation water supply infrastructure delivering water to 1.25 million assessed acres in 1993, 1.25 million assessed acres. We've also become involved and engaged in reclamation of solonchic soil or salinized soil. So it's not just a matter of delivering water; we're also working trying to enhance the soil component as well.

Further to that, we also have a smaller component. It's the private irrigation program. Mr. Chairman, this program has been in operation for the last five years, and like the irrigation rehabilitation and expansion program it's intended to diversify Alberta agriculture by supporting development of irrigation infrastructure. This program is one that covers the entire province, north to south and east to west, and the private irrigators, of course, can access water for a very small area or a very large area. In this program the assistance helps individual irrigation farmers rather than districts, and these individual farmers are outside the organized irrigation districts. The program covers up to 50 percent of the capital cost of the development of the diversification and conveyance works to bring water to a variety of sources, to individual's

fields. As of March '94 the program had assisted 100 projects, bringing an additional 12,286 acres under new irrigation production. Through the support of the Alberta heritage savings trust fund this program's developments have accumulated over five years a total of \$1,611,000 plus. This investment has encouraged a further investment of \$5.5 million from the farmers in developing their own irrigation systems. So this is a joint funding process where through the heritage trust fund the individual farmers also contribute in a very significant way.

I'd like to spend a moment on the grazing reserve enhancement program, Mr. Chairman, if I may. First of all, I want to express appreciation for your committee's support in funding and continuing to fund this redevelopment of grazing reserves. The sustained development of our natural resources continues to be a top priority of not only our department but all of our government. The provincial grazing reserve program provides grazing opportunities to livestock of approximately 1,700 producers in Alberta. It also offers a variety of recreation opportunities throughout the province, in that areas such as hunting and fishing for the general public is something that grazing reserves also provide in their joint usage. We are currently reviewing ways and means to make the program totally self-sufficient from a revenue perspective, including long-term sustainability of pastures, assets, and improvements, and I'm implementing a number of recommendations that will address the current shortfall as well as the long-term maintenance needs of the pastures and associated improvements.

10:14

In 1989 this program was approved to develop 136,000 acres on 21 grazing reserves in central and northern Alberta. The Alberta heritage trust fund has committed \$19.2 million to this seven-year project. In 1993-94, the fourth year of the program, \$3.7 million was allocated, and it seeded 30,000 acres, broke an additional 18,000 new acres, and removed brush from 1,900 acres. Fifteen hundred acres were fertilized, brush disposed of on 10,000 acres, with brush and insect control on 14,000 additional acres. The value of this additional grazing will contribute very significantly to the provincial economy but even more significantly to the local economy. We have a process of calculating what that value is, and it works out at roughly \$300 per head. That's through the process of the weight gained by additional livestock from grazing on the redevelopment reserves. This totals approximately \$6 million overall. The grazing reserve enhancement program provides an essential service to the livestock industry and assists in Alberta's rural economy. With the new developments that have just been announced, whereby we're going to be doubling our processing capabilities, obviously this is one area that we have to be very concerned about, that our production stays with our capabilities of processing.

I'd now like to touch on the Agriculture Financial Services Corporation. Mr. Chairman, I'd like to turn to the work that this corporation does on behalf of agriculture. I note that on April 1 of '94 the ADC merged with Alberta Hail and Crop Insurance Corporation. The objectives of this merger included better customer service, the one-window approach – and this is what we were told by the agricultural community when we consulted with them through the process of roundtables – and economy of administration through these merged operations. The corporation continued to improve its performance in '93-94 in all significant areas. In '93-94 the corporation drew \$54.6 million from general revenue for its ongoing lending programs. That's a drop of over \$8 million from the preceding year. In addition, there was a reduction of almost \$6 million in the cost of assistance under disaster programs, and a combination of lower interest rates and

renewed debentures and good management practices is the main reason for this performance improvement.

No new borrowing was required from the heritage trust fund in this past year, and their corporation, as a matter of fact, repaid a total of \$64 million in total. By March of '94 farm loan arrears were brought down to a low level of 1.8 percent of the total loan accounts, down from 2.7 percent the previous year. I really hope that everyone attaches to the number of 1.8 percent, because that is an outstanding number in this business. Of the accounts 1.7 percent are in arrears for one year. Properties for sale are down to 70 quarters, which is a drop of 58 percent from the previous year's level. After deducting the pending offers, there really are only 30 quarters that are available for sale. During 1993-94 the corporation processed 738 direct loans for a value of \$70.1 million and 6,095 guaranteed loans for a value of \$125,800,000.

Due to a better farm economy and good portfolio management by AFSC the corporation was able to reduce the bad debt provision by \$7 million from the previous year. Operating results in September of '94 indicated sustained improvements in loan portfolio management, and with the view of continuing to trim administration costs, the corporation offered its employees a total of 50 volunteer severance packages, not only offered but 50 employees took advantage of that opportunity. The consequential reduction in manpower combined with administrative efficiencies from the merger will result in lower operating costs beginning in this coming year, and that's when the numbers will start showing to our benefit.

In conclusion, Mr. Chairman, I look forward to the questions. If I'm not able to answer the questions, certainly we have very capable staff here that can, and if indeed there are questions that we're not able to deal with, we assure you that we will respond to you in written form later on. That concludes our opening remarks.

MR. CHAIRMAN: Okay. Thank you very much.

We'll open our questioning today from one of our newer members, and that's Ken Nicol of Lethbridge-East.

DR. NICOL: Thank you, Mr. Chairman. Good morning, Mr. Minister, and welcome to the heritage fund review. I just want to start a little bit at the point the Premier left off at the other day. As part of his presentation to this committee he made an announcement that he was going to initiate a review by Albertans as to the future and direction they would like to see the Alberta heritage savings trust fund go, anywhere from staying as it is to possible changes to complete elimination. I think everybody in the field of agriculture in Alberta recognizes how important the heritage savings trust fund has been to that sector. I was just wondering if you could give us an idea of what you or your staff may plan on doing to make sure that farmers are aware of the benefits they receive from the heritage fund as they make decisions about the future of this program, some of the trade-offs that may occur and that kind of thing.

MR. PASZKOWSKI: Well, thank you, Dr. Nicol, and I think that's a very, very good question. For virtually every presentation I make to a public group, I talk about the importance and the value of beginning farmers, and it's common knowledge that the only process that really allows beginning farmers to carry on, to get into the business originally is through some of the programs. One of the major programs, of course, is funded through the Agriculture Financial Services, and that is the beginning farmer program. So we indeed address that issue continuously and will continue to.

The area of research and development, of course, through Farming for the Future is one that involves a very large amount of

people, and we have the chairman of the Agricultural Research Institute, Ed Stelmach, here with us today. They do wonderful work, and they do a lot of extension work and a lot of communication. Through this process I think there's a pretty solid understanding at least in the agricultural community. Perhaps the bigger challenge we will face is the challenge of making sure that our urban brethren understand the values and the benefits of the expenditures from the heritage trust fund to the economy of the province in general on a larger global scale. Agriculture employs more people than any other industry in Alberta. It's over a hundred thousand people. It's the largest single employer, so it contributes the largest amount in the food and beverage and manufacturing areas, for example. It's the largest single one, 17 percent, larger than any other manufacturing component in Alberta. So there's a very significant contribution that agriculture makes to our province's economy. The heritage trust fund does that in a very dramatic way. Irrigation, for example: 20 percent of our agricultural economy is generated through the process of irrigation. That is a very significant amount, yet the irrigation programs are funded through the heritage trust fund.

I think we all have that challenge. We certainly will be bringing forward the strengths of funding agricultural projects from that. Whether it's funded through the heritage trust fund or whether it's funded through a different source is something that really has to be discussed. That's the open discussion the Premier alluded to and that will be coming forward.

MR. RADKE: If I might, Mr. Minister, I think the question may well be: which, if any, of these programs would we keep if heritage funding dried up or went away. I think the answer is that we would keep all of them. In fact, we've been doing some things on the assumption that that might in fact happen to prepare for that day. If we start with the grazing reserves enhancement program, for example, we announced in our business plan released this year that it was our intention to make the grazing reserves program self-funding in terms of financing, including a provision for ongoing maintenance. So we in fact plan to remove the need to spend money on redevelopment in the future by making that program self-supporting.

10:24

In terms of the irrigation programs you're aware that we have announced our intention to move away from heritage funding – that again was in our business plan – and change the cost-sharing ratio from 86-14 to 75-25. The same is true of the private irrigation assistance program. That will be funded out of the general revenue fund next year, irrigation rehab funding the year after.

The same is true of research. Certainly in our consultations over the last two years the message came out loud and clear that of all things that the department does, the farming community expects us to be at the leading edge in research. In fact, as funds have been reduced for many other departmental programs, we have been reallocating funds to ensure that research remains an important part of what we do, including reallocating funds from other parts of our department to the Alberta Agricultural Research Institute to make up for the diminishing funds coming to the research institute from the heritage savings trust fund. It would be our intention to continue to put that emphasis on research and to work very closely with the new Science and Research Authority to ensure that we follow through on what farmers told us was one of the most important things we do in the department, and that's research.

DR. NICOL: Basically, then, what you're saying is that if the people of Alberta choose to liquidate the heritage fund, you'll go

to cost recovery or general revenue funding for these programs, but the programs will be maintained.

MR. RADKE: That's our intention.

MR. PASZKOWSKI: We've started the process now. It would be our hope that there is a recognition of the need for government participation in these particular areas. However, we've positioned ourselves where we could go either way.

MR. SPLANE: Maybe I could just add to that with respect to the large funding on the liability side of the FCC's balance sheet. If you have a copy of our annual report, you'll see in note 11 the list of the debentures that are outstanding. It was \$948 million at the end of '94, and that was down substantially, over \$50 million, by virtue of the repayments that we made during the year. I anticipate that we'll probably pay down another \$57 million during this current year, and then there's a schedule there for the repayments that are due from '95 until '99. The question would be: how would we replace that funding? I don't think general revenue would likely be a source to replace that kind of funding.

Other examples would be the way that the Farm Credit Corporation replaced their funding. They went directly into the marketplace. I would think on an interest rate basis we would probably fare reasonably well if we were in the marketplace to replace this particular series of debentures, but that would be a fairly intensive study that would be involved to refund what we have here.

We do have a program in place to try to graduate our beginning farmers. This is a development kind of fund. These beginning farmers tend to need the kick start in the initial five years. Their loans are actually subsidized to them during that program, and that subsidy does come from the general revenue fund. We are looking at actually selling blocks of assets out of the portfolio to commercial banks.

That's another way that we could pay back more money than we are now to the heritage fund, so there are a number of ways in which we could do it. Depending on the decision that is taken, we're certainly positioning ourselves so that we could do that.

DR. NICOL: Basically, then, what you're saying is that in two areas especially, the grazing leases and the irrigation rehabilitation, farmers are going to be looking at more of a user-pay focus to replace the heritage fund even if it is kept, because you're already planning to take these programs out of the heritage fund. Is that right?

MR. PASZKOWSKI: Well, we've indicated what our schedule will be for the next three years. That's in our three-year plan, and we're not moving from our three-year plan. So the direction has been given; we've laid out what's going to happen in the next three years. Our intention is always to be three years in advance as to what our process is going to be. However, we're also going to consult with the agricultural community before we make any of those decisions. We've committed to that, and we are continuing to do that. We're doing it in consultation and in agreement with the agricultural communities that are affected.

MR. TACKABERRY: If I might add a point on the grazing reserve program, we've had a number of discussions with the patron groups, and they fully support the increase of about \$3 per animal-unit month which we will be phasing in. The purpose of that would be to build a fund of about \$900,000 each year that we could then use for ongoing and continuing development. Right now, this year, we spent \$3.712 million, and our plans for next

year are for \$2.6 million roughly, and then in '96-97, as we phase the program out, we're down to about \$1.168 million roughly. When we get that done, we should have the 136,000 acres up to a stage where by some ongoing maintenance we estimate at about, as I said, \$900,000 a year, we can continue to keep all those properties that we've got. There's roughly 750,000 acres in total. We should be able, with that \$900,000, to keep them up and in a top-producing state so that we can get a maximum number of returns in terms of livestock that are grazing on them. All the livestock that are grazing on them of course are charged out again at full cost recovery, so that provides income into, hopefully, the revolving fund that we're establishing to manage them.

MR. CHAIRMAN: Okay. Thank you.
Carol Haley.

MS HALEY: Thank you, Mr. Chairman. In the Agriculture Financial Services Corporation financial statement under note 15 there's a contingent liability of \$52.3 million on March 31, 1994, under the heading of other loan guarantees. Could you please tell me what those loan guarantees are?

MR. SCHURMAN: Most of those guarantees are for loans that are made by commercial banks or Treasury Branches and credit unions under the Alberta farm development loan program. They are loans that are made at reasonable rates of interest, and they cover purposes such as operating capital and equipment purchases. We guarantee up to 10 percent of the total loans made in any three-year period by each of the lending institutions. So, for instance, if Treasury Branch makes \$100 million worth of loans, then we're guaranteeing \$10 million of that amount.

Since the beginning of the program there have been 142,000 loans made for \$1.6 billion, which is a fairly significant lending program. In terms of losses, the losses are less than 1 percent of the amounts that have been lent, so we consider that to be a pretty reasonable program on our behalf.

MS HALEY: How is the performance of the Agriculture Financial Services Corporation evaluated relative to other lending institutions?

MR. PASZKOWSKI: Do you want to deal with that, Bob, or do you want me to jump in?

MR. SPLANE: You go ahead, and I'll supplement if you like.

MR. PASZKOWSKI: Of course, we do have performance measures that are used, and that's very key and very, very important as far as any lending institution is concerned. I think I dealt with some of the numbers in my overview. Indeed, last year we were at 2.7 percent in arrears, and now we're down to 1.8 percent. That in itself is a performance measure, just what your arrears are.

The other measurement, of course, is what's out there as far as land that has to be sold. Actually, we now have 70 quarters that are out there, of which only 30 are really left to be sold. That's down to about half of what it was last year.

So as far as efficiency is concerned, we are certainly bringing forward the efficiencies. Now, just for clarity, is it on efficiency of operation and administration that your question is being asked, or is it on actual measurement of performance loans?

10:34

MS HALEY: I guess what I wanted to find out was: compared to other lending institutions, how do you rate?

MR. SPLANE: We measure ourselves in several ways. It's very common in the banking industry, for instance, to measure efficiency in terms of assets per employee. Our lending division has some \$6 million in assets per employee; that includes all employees in that area. I guess in the banking industry it would be less than half of that. We compare ourselves with the Farm Credit Corporation, who are pretty much in the same business as we are. Their assets per employee are \$5.1 million. So we watch those carefully and try to make sure that we're the most efficient.

MS HALEY: My final question is with regard to customer service and satisfaction and your lending organization, especially in light of the merger. How are you measuring that? Are you satisfied that your clients are comfortable with the new format of your company?

MR. PASZKOWSKI: Well, to date there have been some major adjustments. The commitment was made that this particular part of government would fulfill its 20 percent reduction as well as far as costs are concerned yet maintain a high level of service. Part of this, of course, was done through the amalgamation of the ADC and Alberta hail and crop.

This is more than just efficiencies that are brought about here. I think it's very critical and very important to recognize that what we have achieved is what the agriculture community had asked for in that they wanted the one-window shopping opportunity. This is what's really been the important measure: the streamlining of the whole process.

Overall, we've backed off as far as our board of directors is concerned. We now have nine members on the board instead of 17. We have reduced our staff, as I mentioned in my overview. Fifty took the severance. So we've lowered our staff yet maintain the same level of service, as a matter of fact even a better level of service. Overall, the comments that have come to our department certainly have been very positive.

MR. SPLANE: We also do the same thing as in the private sector. Every time we make a loan, we hand out a questionnaire. It's really a satisfaction type of questionnaire. I think the way that's rating us right now is that 80 percent of the customers are fully satisfied with their service and 90 percent of them would refer us to someone else, just as two indications.

MR. CHAIRMAN: Okay. Thank you very much.
Michael Percy.

DR. PERCY: Thank you, Mr. Chairman. Mr. Minister, certainly I think the agricultural sector is an important keystone of the economy, particularly if you look at our exports. They move towards greater value added and diversification within agricultural exports. So my question, with the indulgence of the chairman, relates to the Food Processing Development Centre. There were no funds expended in the last year, but it is a historic investment of the fund. My questions are related to performance of the food processing centre. Concerns have been expressed that it isn't in fact as active as it could be in innovation in food processing. Can you tell me what the status is, its business plan, and what new products have emerged from the centre?

MR. PASZKOWSKI: This is truly becoming one of our success stories as far as value adding is concerned, because as late as I guess three years ago there were only six major projects going on and it wasn't being utilized properly. Today we've actually got a

situation where we've got a backlog of groups that want to utilize the facility. As a matter of fact, interestingly enough we've got a situation developing where there is a demand for a similar facility in the southern part of the province because they can't access, and there's a real concern starting to come forward that we need more of this type of facility. What this facility allows is basic research to be done that if you tried to do on your own, you wouldn't be able to because you don't have the capabilities of the equipment, and this is all centred in one area.

We've had some real success stories as far as this facility is concerned. I'll just go through some of them. Allison Valley Food with their microwavable frozen snacks, for example, used that facility. Saxby Foods, which was just opened in Edmonton here, the trifle, is going to export across Canada. As a matter of fact, they're exporting into Ontario. They did the work in this particular institution. Cool Spring water did their research work there. Fabko Food, the frozen lasagna. I could go on and on. Foothills Creamery, Centennial Food, Van's: all of those have developed products. So as far as a success story is concerned, this is one that is now utilized virtually in total, and the demand now is to replicate it in the southern part of the province.

DR. PERCY: Thank you, Mr. Minister.

In terms of the commercialization of these products, does the centre work on a cost recovery basis, or does it work on sort of a contingent share of the profits should they emerge, or does it have a mix of pricing strategies for regulating access to the facility?

MR. PASZKOWSKI: Well, our long-term objective of course will be to try and work towards a full cost recovery. That's difficult to achieve in one fell swoop, but our long-term objective will be working towards a cost recovery process.

DR. PERCY: Thank you.

My final supplemental. In one sense the centre seems to do a lot of the same basic type of research that the Alberta Research Council does. Are there any initiatives or planning under way to sort of integrate what the food processing centre does with what the ARC does? They both aim at the commercialization of products. Their goal is to promote greater value added within Alberta and promote industry within Alberta.

MR. PASZKOWSKI: Well, I'll just speak to that briefly, and I'll have my deputy speak further to it. They don't really duplicate because one is in food processing. The Agricultural Research Institute is of course broader and covers a broader spectrum and in different areas. As far as the Leduc centre, it's actually into development of new products. The conceived product is there, and it's just a matter of developing the process. So there are differences between the two, and they don't overlap in any way.

MR. RADKE: The minister's quite right. There's a real distinction between what the ARC does and what the Food Processing Development Centre does. The Food Processing Development Centre exists for the private sector, to use facilities to develop market-ready products to obtain repayment from their activities. We provide the infrastructure within which they can work to develop a product that actually meets the market requirements. That becomes more and more important as we learn more of what the Asian market is looking for in terms of value-added products. They want a product that is very specifically designed to meet the requirements of, say, the Japanese market. With the Food Processing Development Centre they can come into Alberta and

they can use Alberta products to develop a food product designed specifically for the Japanese market, not only develop it but test it and produce it in sufficient quantities that they can ship a container load over to Japan and test-market it in the actual Japanese market. As we learn more about the requirements of the Asian market, it's becoming increasingly clear that the Food Processing Development Centre is probably one of the most valuable assets we have to take advantage of that market, because on top of all they demand a product that's designed specifically for their market.

10:44

MR. PASZKOWSKI: Could I just jump in on this. I had the opportunity of traveling through Japan this last August. I first traveled through Japan in I think it was 1980 or 1981. At that time the Japanese told us: we'll never be anything but bulk commodity buyers; there's no point in you ever thinking that you're going to send processed products to Japan. The average wage of the Japanese at that time was \$8,000 per person. It was quite a revelation for us to go through this time and have them tell us that they are not interested in bulk commodity any longer. When we pressed them for that, they told us that their average wage was now \$45,000 per person; it's far more economical to do the processing and the packaging in another country. Certainly it puts us in a wonderful position to be able to do that type of value adding right here in Alberta.

Now, with this facility, of course, we can develop the product that fits their specific need, and that's so key and very important. You have to meet the need of the customer. We've changed our whole philosophy as far as the department is concerned in that we're no longer going to be selling what we grow; we're going to be growing what we can sell. This fits into that mesh very, very well.

The very fact that the Japanese have sort of priced themselves out of the competitive marketplace as far as value adding is concerned – the other thing they told us is that they're ultimately going to exit subsidizing agriculture in Japan. Now, they have 127 million people in Japan, a huge market, a very small land base. The fact that they're not going to be competitive through the fact that they're going to discontinue subsidies really positions us in a wonderful, wonderful opportunity here. It's a window of opportunity. It's a window that we have to access, and if we don't, someone else will. Nevertheless, this is a tremendous time of opportunity for us.

MR. RADKE: Just to be clear, we don't hire people to do basic research at that place. We hire qualified people, people who are scientifically trained so that they can work with the private sector. Their job is not to do basic research or to publish scientific articles or anything of that nature. Their job is to work with the private sector in taking a food product and modifying it to meet the requirements of a specific market, and they're very good at that.

DR. TEKLEMARIAM: May I provide just a couple of comments, Dr. Percy? The Food Processing Development Centre has equipment and facilities that are not available anywhere, in fact not even in western Canada. One of the products that they've been successful in producing and marketing to Japan, which the minister and the deputy referred to, is beef jerky. A local meat-processing company here called Van's Foods exports that product to Japan. It's essentially a snack type food that replaces a type of snack that the Japanese are used to which is made from fish, basically dried fish, and beef jerky is used as another snack food. In fact, one could also find the same product here in some food outlets. The key thing is that that product was developed with the help of the

centre and manufactured and sent to Japan through Van's Foods, and the demand continues to expand in Japan.

MR. CHAIRMAN: Thank you for that.
Ed Stelmach.

MR. STELMACH: Thank you, Mr. Chairman. Mr. Minister, this morning my questions refer to the Canada/Alberta partnership agreement. According to the annual report, we have had 28 loans totaling \$7.5 million that were made under the agreement.

MR. CHAIRMAN: Just so I'm not too confused, you're going to tie this to the report somehow; are you?

MR. STELMACH: Well, it's part of the financial assets of the annual report.

MR. CHAIRMAN: Okay. Good. Thank you. I was as usual just confused.

MR. SAPERS: I was following him, Mr. Chairman.

MR. CHAIRMAN: I realize the chairman was the only person in the Chamber today that wasn't following that. Now I know where he's heading, so I'm happy.

MR. STELMACH: Page 14 of the annual report. I guess the objective of the Canada partnership agreement is to stimulate private-sector investment in food processing. How are we doing, Mr. Minister, in terms of our objectives?

MR. PASZKOWSKI: This of course is a joint federal/provincial initiative, and from my perspective at least it's probably been one of the most successful programs we could have ever indulged in. Just to give a little background, the reason that the question is asked, Mr. Chairman, is because this program is serviced by Alberta financial services. They administer the program on behalf of the federal government as well. The basis of this program is that the federal government participates to 50 percent, or dollar for dollar, with the provincial government. Now, this is a loan. It's a five-year loan, and as the money is repaid, the provincial government collects the federal share as well as the provincial share. However, the deal that we have, the arrangement that we have is that we only rebate 50 cents of a dollar to the federal government. That's part of our administrative cost. We look after the processing of the project.

Overall we've had 56 projects for a total of \$15.4 million approved by September of '94. The private-sector investment during that time is in the area of \$70 million. So we've been able to leverage \$70 million with \$15.4 million, and that of course is quite exciting. The overall as a result is a \$29.4 million increase in our GDP, which I think is very, very significant, and 342 additional people have been employed through this program. Remember, this is not a grant; this is a repayable loan.

MR. STELMACH: Mr. Minister, when does the current agreement end?

MR. PASZKOWSKI: The arrangement is for March 31, 1995, applications that are there before or if we exhaust the funding, whichever comes first. It looks like we'll come out very close on both ends by March 31. Bob, perhaps you can spend a little more time on this.

MR. SPLANE: What we've found in the past month or so is that there's been a rush of applications, and we're now going to have to get into a position of rationing the balance that's there. We now have more applications than we have money available under the program. I don't think this is just a rush for funds, though; I think it's an indication of what's going on in the value-added sector. I think it's very positive. This has been a popular program supported by both levels of government. From our point of view, I don't know that we could negotiate one as good again. It has just been ideal, because by the time we're done, I suspect that it won't cost the province anything.

MR. STELMACH: My final question, Mr. Chairman, and this is where I need a bit of your grace and permission. When this program comes to an end, as you say, in March 1995, how can we come up with some sort of a program that's going to keep the objectives of the program but also put in place some sort of an instrument that will stop what I feel will be some other government jurisdictions perhaps now fighting for companies to locate in their provinces?

MR. PASZKOWSKI: Well, I've written to the federal minister asking if we can sit down and start talking about a new initiative, because, as was mentioned, this program does expire by the end of the year.

I think one other statistic that's really, really key on this whole program when we're measuring some of the success is the fact that it's cut our imports by \$6 million in this province with products that we've been able to develop through this initiative, and we've increased our exports by \$10 million. So in essence it's advantaged us by a total of \$16 million, which is a very, very successful program.

We are now in the early stages. I've written to the federal minister asking if we can sit down and discuss either a continuation of this program or a follow-up to this program, because export is really our future. Sixty-four percent of everything we produce in Alberta as far as agriculture is concerned leaves the province, and we're increasing as far as our value-added component is concerned. Of course, it's common knowledge that the higher you go up the value-added ladder, the more benefits there are to the local community.

10:54

Overall I can't answer your question with any true definition, because we're at the early stages. I'm hoping we can sit down with the federal government and negotiate a deal that will be as successful as this one has been. This is probably the most successful program that has ever been in place.

One of the most exciting ones is - I was at a meeting the other day with Beatrice Foods, and Ted Clarke was there from Beatrice Foods. That's the cookie plant that was started in Edmonton through CAPA. A million dollars was put into the cookie plant. Originally it was designed to produce cookies for western Canada and part of the northwest United States. Today that plant has already doubled. It's employing double the original people that it was originally designed for, and rather than just delivering cookies to the northwest United States, it's now producing cookies for 44 states in the United States and is looking at expanding into Asia. That's happened right here in Alberta. Had we not had this program, that plant would have been located in Chicago. That's certainly a demonstration of the success of this program. It's employing people right here in Alberta and in Edmonton, a lot more people than we even anticipated. A true success story.

MR. SPLANE: Maybe I could supplement with respect to the comment about the competition that might take place between the provinces. We manage this program jointly with the federal government, and the western diversification office sits in on our meetings. They asked us if we could do something to kind of address that from their point of view. They don't know what funding is going to be available in the future. So we did initiate a meeting with the three western provinces, told them of the success of this program, shared with them the results of the analysis that a private-sector firm did, where they say that, you know, we're getting six times the bang for our buck in the program, and suggested they look at lobbying Ottawa for a similar kind of program. That would put us in a position where we wouldn't be competing; we would be doing similar kinds of things. I think we've led the way, and that's pretty clear. The other two prairie provinces were certainly interested in the approach and impressed with the results.

MR. PASZKOWSKI: The important point here is that this is a repayable loan.

MR. CHAIRMAN: Okay. Thank you.
Don Massey.

DR. MASSEY: Thanks, Mr. Chairman and Mr. Minister. I wanted to ask about the research information and how it gets back to the farmer. Can they access it through the agricultural data base that's run by the department of agriculture on farm management?

MR. PASZKOWSKI: Well, there's a whole broad spectrum of communication processes. There are videos that are produced. There's a hard copy that's produced. There are pamphlets that are produced. There's a lot of information that is produced and sent back.

DR. MASSEY: Can they access it by computer through the data base?

MR. PASZKOWSKI: Yes. Just so I can get a little plug in for a new program, the SPERG program, we are now developing a program that will help rural and urban Alberta, whereby through a computer disk we're going to identify every program that government has and are going to be able to circulate it throughout not only the agricultural community but the municipal bodies and agencies, to anyone who may be interested. This type of information will be made accessible because every program that we have will have a short copy as to what the program is. There will be a contact person. There will be a phone number. There will be an update date on this particular element, and from that you can access further hard copy. So we're quite excited about the potential of that program that will allow for dispensation of information similar to this. Do you want to comment on that?

DR. TEKLEMARIAM: Thank you, Mr. Minister. That's quite correct. Yes, we do have information available on computer data bases that could be accessed. It's a BBS system, and they can access the current projects, the project lists, the researcher, the topic, any additional information that may be available, and who to contact. When the project is completed, we put the abstract of the report on that system as well. We have now linked up with all other data bases across the country. Those who call our number not only get what we put on but also basically what's happening across the country, across Canada, on that particular topic.

DR. MASSEY: Is it on Internet?

DR. TEKLEMARIAM: It's not on Internet. It's called a farm business management network. It's agriculturally based. The trend is towards making it available through Internet as well, but it's not available now. We just have our own network.

DR. MASSEY: Then may I follow that up with the creation of the science and research ministry. Is that going to in any way impact the kinds of things you do? I'm not quite clear on that ministry and what it's responsible for in terms of research that's done in various departments. What is the link between agricultural research that's conducted and that minister's activities?

MR. PASZKOWSKI: The process that the new ministry is basically going to develop is to provide an internet of all research that's done and to try and identify what's out there under one global roof so that agriculture is not busy doing something, forestry is not busy doing something that may indeed interact or may overlap or duplicate without the right arm knowing what the left arm is doing. Overall what the new portfolio is going to do is sort of be the umbrella of all research in the province just to see that the dollars that are being spent are not being duplicated. That's the primary element of that new department. It will be to sort of co-ordinate and see what research is being done and identify it so that someone else in another department – and that can happen very easily of course, another department just sort of doing something the same without knowing that someone else is doing it. That's the primary focus and purpose of this new portfolio that's being established.

MR. CHAIRMAN: You have one more.

DR. MASSEY: It's more of a comment. Then in some way the new department will affect the kind of research or some of the research that might be done in trying to avoid duplication.

MR. PASZKOWSKI: Well, that's key because in times where resources are limited, it's key that we get the best bang for our buck really. We're going to be part of this. We're going to be part of this other group. We're going to have people represented on it to make sure that the rest of the departments understand what we're doing as well so that indeed there is a complete understanding of what's happening out there. That's the idea and concept of this new role that science and technology will play.

MR. CHAIRMAN: Thank you very much.

We'll now move to our deputy chairman, Denis Herard.

MR. HERARD: Thank you, Mr. Chairman, minister, and staff. As an urban cowboy I find this discussion very interesting, and I want to comment on the positive nature of the way this is being done, because I do really believe that agriculture is in fact the future of this province. While this particular committee unfortunately has to look at the past, I'm really impressed with the amount of enthusiasm that we're getting information out about the future of this great industry in Alberta.

Living on the banks of two major rivers that are involved in agriculture, then my question will be on irrigation. It's my understanding that the endowment fund was established to provide future funding at the end of the irrigation rehabilitation and expansion program. So what is the present status of the endowment fund with respect to IREP ending?

11:04

We've basically developed a process in our three-year plan that will ultimately allow us to exit the endowment plan. Further to that, we had a series of six meetings with the irrigators this past year and developed a process that would be acceptable to the irrigators as well as to government to allow for the exiting of this maintenance program. It was agreed that through the process of time there would be a process of exiting. The irrigators will contribute 14 percent, the government will contribute 86 percent of a \$15 million endowment fund, and there's also \$2.2 million of interest in that fund. So it totals up to a \$17.2 million fund. The irrigators, of course, are going to have to be able to match to that 14 percent level. The process basically is a conceptual process that's in place that will allow the irrigators themselves to assume control of that maintenance fund within a three-year period.

MR. RADKE: Essentially what we did two or three years ago was say that someday the funding is going to end and in the meantime we should be saving some of the money out of the heritage savings trust fund to replace the program when it ends. So we put essentially 15 and a half million dollars into this fund for three years, and then when we reviewed where we were going in the three-year business plan, it became apparent that we would need some sort of program for a much longer period of time into the future if we were going to maintain that infrastructure properly. What we did say is that rather than going on a continuing series of five-year programs for irrigation rehab, we need to establish an ongoing fund for irrigation rehabilitation at a lower level, at \$17 million rather than \$25 million, and an increased participation rate by irrigation farmers at 75-25 rather than 86-14.

Once we made that longer term decision, then the question became: well, this money that you were putting aside is money that you took away from our irrigation rehab program earlier, and now it needs to be returned. So in essence we agreed to that. We said: we will return the money that we took out of your ongoing rehab funding to prepare for the future, and we'll return that money to you over a three-year period.

MR. CHAIRMAN: Thank you.

Before the next question, I see that we have some guests in the members' gallery this morning. I'd certainly like to welcome you. What you are witnessing here today is the hearings of the standing committee on the heritage savings trust fund. To my left, so closest to you, we are today hearing evidence from the minister of agriculture, the Hon. Walter Paszkowski, and his staff. Then to my right, in the first row we have members of the loyal opposition from the Liberal Party and in the second row, then, government members from the Conservative Party. We are allowed to be more informal during these hearings, so you'll notice that some of the members will have their jackets off, and you will also notice that they may not in fact be sitting in their designated seats. This is quite allowable under our particular process. So I'd like to thank you for joining us and would take this time now to wish you a merry Christmas.

Okay. Denis.

MR. HERARD: My first supplemental. With respect to the 1994-95 budget, in terms of the irrigation rehabilitation and expansion program, it's been allocated on an 80 percent government and 20 percent irrigation formula. Now, will this cost-sharing ratio be adjusted in the future as you can see beyond the termination of this plan?

MR. PASZKOWSKI: Yes. That's a very good question. The agreement that came forward was that we were at 86-14. In the

first year of restructuring we had moved to 80-20, and then in the following year we will move to 75-25. The government will participate to the extent of 75 percent with the irrigation districts participating to the degree of 25 percent. Once we're at 75-25, it's been indicated that that will be the status quo until there is some other determination. However, keep in mind that we do have a three-year plan, and there are no changes in the projections in our three-year plan.

MR. HERARD: Thank you. My last question. Obviously some districts will have more rehabilitation completed than others at this point. How do you allocate funds between districts to take this into consideration?

MR. PASZKOWSKI: Well, obviously there were some, and I'll let Brian answer that one. There is a process in place to see that the irrigation districts are able to maintain the degree of service, of course, because ultimately your maintenance is a key ingredient to being able to maintain that.

So, Brian, if you would.

MR. COLGAN: Thank you, Mr. Minister. When this current five-year mandate of the program was initiated in '91-92 under the leadership of Mrs. McClellan, who was the associate minister of the day, a lot of effort was undertaken in consultation with the Irrigation Projects Association to look at the previous formula, which was really based on assessed acres and water rates. Coming out of that review, the formula was revised. A significant component of the allocation factor at this time is the percent complete, so that incremental funding was provided to those districts that were further behind. The largest example of that is to the Western irrigation district, which is located just east of the city of Calgary, where their funding was significantly increased over the previous formula to help them catch up, and that was agreed to by all the districts.

As this program ends at the end of the next fiscal year, our minister has asked us to again review with the districts the allocation formula, and one of the components that I am sure will be a consideration is the percent complete. It's also been the wish of the minister that we look at the bang for the buck that we're getting from this program and that we be considering providing some incentive to districts that have more of the higher value crops. Those discussions haven't begun yet, but I'm sure that both of those will be considerations for the development of a formula once the funding comes from the general revenue fund beginning in '96.

MR. PASZKOWSKI: I think it's really important that we get the maximum bang for the buck. I think we have to try and utilize the water to its maximum advantage because water is a valuable resource, particularly in the southern part of the province, where there isn't a volume of water like there is in the northern part of the province. So it's very critical that we grow the crops that are going to get us the highest return for two reasons: one, the lower-valued crops in many cases can be grown in dryland farming, and ultimately they compete directly, but the crops that get us a higher value and a higher return ultimately provide a much greater general benefit and a better return for that water usage. We're certainly going to focus on the area of trying to get higher value-added returns for the irrigated land that we have in place.

Temperaturewise, climatewise southern Alberta is well suited to the development of crops such as potatoes, sugar beets, and those types of crops. So we think there's a tremendous opportunity with our market expertise that's out there. We're trying to entice these

types of companies that use potatoes, for example, sugar beets, and those types of products and will ultimately produce a higher value. We'll get a better return for the money that we have invested in irrigation.

MR. CHAIRMAN: Thank you.

I would like to welcome some visitors that we have in the members' gallery. What you are witnessing this morning is a hearing of the Alberta heritage savings trust fund. If you were to stand for a moment and look down, you could see the minister of agriculture, Walter Paszkowski. Walter, would you give them a wave? This is his staff. He is being questioned by members of the loyal opposition, who are sitting on the front bench this morning, from the Liberal Party. In the second row are government members, representing the Conservative Party. We are allowed to be more informal at these particular hearings, so you'll see that people have their jackets off and that also they are not sitting in their designated seats. I'd like to say thank you for joining us and would wish you a merry Christmas. Thank you.

Okay. Danny Dalla-Longa.

11:14

MR. DALLA-LONGA: Thank you, Mr. Chairman. I'd like to thank the minister and his assistants for being here this morning. Several months ago I had a discussion with a constituent about a whole bunch of issues. One of the subjects was this beginning farmer program, which I don't know a lot about, and he'd asked me some questions about this. So I guess I'd like to maybe ask some questions about this program. My first question is: what are the general parameters for assistance under this program? What are the criteria for getting assistance, and what form does it come in? I don't think I caught the total amount that was spent last year under this program.

MR. PASZKOWSKI: Thank you very much. That's an area that I really enjoy spending time and discussion on, because the future of agriculture and the future of that whole industry revolves around beginning farmers. We have to have a process to allow the new dynamics of the new type of farmers to come into place. The problem that we have with farming particularly is the huge capitalization that's required in order to enter that industry. I think everyone understands that you have to have the volumes of scale in order to be competitive, and then the capitalization becomes overwhelming.

The beginning farmer is a program that has turned into a very, very valued and very successful program to keep the agricultural industry rejuvenated. It does two things. One, it allows the beginning farmer to access money at an accountable rate of interest. It also allows for the exiting of our senior farmers as well, and it gives them an opportunity to sell to people they may otherwise not have a market to. As far as the program is concerned, it provides a better rate of interest over a short term, and once the beginning farmer term has expired, then of course the beginning farmer has to renegotiate and go into the regular business of competitive financing.

Bob, I'll let you get into the actual details of the program.

MR. SPLANE: Maybe it would be helpful to profile a typical beginning farmer for you. Agewise they would normally be under 40 years of age and often in their 20s, typically today would maybe have one or two years of technical training at one of our agricultural colleges. They are normally associated with a farm family unit and looking to either expand within that unit or to move out independently on their own. Usually they require some family support.

[Mr. Herard in the Chair]

The normal kinds of credit analyses are done on loan applications, but they're able to borrow at a more favourable rate in terms of security. They're only required to have 20 percent equity in the project. It's normally for land base, but we've certainly encouraged other types of investment, because we're finding now that probably upwards of 50 percent of farmland now that's operated is on a lease basis. So we encourage them to borrow for improvements, for fencing, those kinds of things as well. They're able to borrow a maximum of \$200,000, but we encourage them to do that within their repayment ability. They can borrow as little as \$10,000 at a time within that maximum of \$200,000.

We're finding that as we profile these beginning farmers, they're very competitive. They're every bit as good, if not better, in terms of their productive capability. Where we find that they're at a disadvantage, though, is that they're carrying a much higher debt load. Typically in the farming industry – and this would include beginning farmers. Keep in mind we've got about 8,000 of them, some 12,000 accounts, and they're pretty well all what we term "commercial farmers." Out of probably a total of 30,000 commercial farmers in the province – that is, they have income between \$100,000 and \$150,000 a year in terms of gross income – they're carrying a much higher debt load. That's why we have the program that provides them with an incentive for that first five years, to help to keep them competitive and to help kick-start their operation.

I think if you look at them in terms of the productivity side and compare them to the rest of the farming universe, they're every bit as competitive, if not more competitive. We monitor about 150 of those accounts who have voluntarily agreed to be part of a project on an annual basis. We compare their results to Statistics Canada and Ag Canada information on the farming industry, and we're very happy with the results. They compete right up there. As I say, the one disadvantage they have is that where a typical farm would probably be 15 percent debt load, 15 percent of assets, they may be as high as 80 percent debt load.

MR. PASZKOWSKI: The other element, Mr. Dalla-Longa, is that the beginning farmer by and large hasn't been able to access funding from the conventional institutions. Consequently, if we didn't have the beginning farmer program, these people probably would not be involved in the agricultural community. They wouldn't be able to access it, and this would provide a very, very deep void, because really that's how you re-establish your industry: bringing in the new continuously. So at this stage we don't have any other process to allow for the beginning farmer to come into place.

MR. SPLANE: One of the things that you would notice as well if you look at our annual report is that we have a vendor mortgage program, and that program ties in with the beginning farmer program. One of the objectives of the beginning farmer program is to achieve the intergenerational transfer and keep people in the farming business. The vendor mortgage program is one where we don't do the funding; the vendor does the funding. We administer it the same way we would any one of our own direct beginning farmer loans. It's another way of getting out of the business and keeping it in the private sector but still providing the same benefits and incentives to the beginning farmer.

MR. DALLA-LONGA: My second question is really an extension of my first question. How much does the province have out under the beginning farmer program in terms of absolute dollars? After

you consider sort of what would probably be obvious losses that would be experienced, what's the net return to the fund?

MR. SCHURMAN: Right at the moment, at March 31 of '94 in our annual report, the balance outstanding in the beginning farmer program is \$756 million, and that comprises \$9 million in loans. As far as the return on the program, it's going to be negative because we subsidize these loans down to a net interest rate of 6 percent during the first five years, and we're borrowing at something in the neighbourhood of 9 to 10 percent. So there's obviously an interest factor involved in the cost to the province. Over the years since the program has been in effect, actually since about 1975, the losses on the program were running something in the neighbourhood of 8 percent. In the last five-year block, since about 1989, that average was reduced down to something like a 4 to 5 percent loss. So it's improved in the last five or six years.

11:24

MR. DALLA-LONGA: Well, I guess one of the questions that I was asked by this individual that I had a discussion with – and I wasn't able to answer directly. You know, farming is really like a small business, and I understand the importance of it. But I was asked the question: why isn't this type of program also available to people starting up in small business, the kind of funding that's available? Many people have to start off in small business, and this particular individual said: "You know, I've got high capital costs as well. Why isn't that available to small business?"

MR. PASZKOWSKI: Well, we do have the AOC program, of course, which moves out of agriculture and deals with business, and in that sense there is a program for small business that's there to be utilized. So in fairness there is a program under the AOC.

MR. DEPUTY CHAIRMAN: Bonnie Laing.

MRS. LAING: Thank you, Mr. Chairman, and welcome to the minister and his staff this morning. I'd like to ask about the grazing reserves enhancement program. How does your department determine who is hired to do the redevelopment work on these grazing reserves?

MR. PASZKOWSKI: Thank you, and it is a good question. Anything over the value of \$25,000 is publicly tendered. It's tendered in the major newspapers as well as in the local papers. So the process is there in public; it's a public document. It's a competitive process. It's a tendering process, any project over \$25,000. If it's less than that, of course, it costs you as much to advertise and go through the process, so it's easier the other way.
John.

MR. TACKABERRY: If I might add just a point on that. We try as well, if at all possible, to give local contractors an opportunity, including producers themselves if they happen to have the proper equipment, to do the kind of development work that's required. It's a fairly specialized type of equipment, Cats or dozers type of thing with disks and plows, and we'd want to make sure that whoever is awarded the tender has the kind of equipment and the expertise to get the job done on time.

One of the things that we're quite concerned about is that we have narrow windows of opportunity when you can do some of this work, and because you're subject to all the elements, to rain or whatnot, you have to be able to move quickly and get the job done when the weather allows you to do that.

Generally speaking, the tenders are offered to the lowest bidder. That's assuming that the lowest bidder has got a good track record and has the proper equipment and expertise to complete the job. So not always, but generally it's the lowest bidder that gets the contract.

MRS. LAING: Thank you.

For my supplemental, there are some important steps that have to be followed to properly redevelop these marginal lands into productive areas. Could you elaborate on these techniques?

MR. PASZKOWSKI: Well, yes, you're correct, because many of the grazing reserves are located in marginal areas of course. What we try to do is work with what the setting is, because obviously there are various settings. There are lake bottoms, there are sandy dunes, and each one requires a separate type of process depending on the temperament of the soils. Certainly we are very conscious of the stewardship of the soils as well.

So generally the process of course is – there are two. One is the development process, the original, and in some cases it means removal of cover. In other cases, of course, there is the redevelopment, because we do have the continuing growth of suckers and small growth, so that has to be treated in a different way. Generally, the effort is to graze heavily the area that has the suckering and then in the winter come along and try and cut them off as they're being redeveloped. You have to do this periodically because grazing reserves are just like any other farm: the more you rehabilitate them, the more productive they are. If you don't do that, you gradually lose your productivity, and you're not maximizing the benefits that you should be with the investment that you've put into them.

So after that has happened – they're usually cut off in winter – then the area can be cut with a heavy disk, and of course it brings it up into fairly heavy gobs. The reason it's done that way is because if you pulverize the soil too much, you'd be subject to erosion. So you leave it in kind of a cloggy state. Ultimately, you would rework that soil and seed it to a cover crop such as oats, for example. In some cases you would seed the nurse crop with the cover crop, depending on the circumstances, and each set of circumstances can be different. Ultimately, you would graze the cover crop, because remember that it was not that well cultivated the first time. You would come back, rework it, seed it to a nurse crop, and perhaps do it again. Then, of course, you've re-established, and you're good for an extended period of time.

John.

MR. TACKABERRY: The method of treatment of course will depend a lot on the area of the province that you're in. The heritage savings trust fund component is targeted more for those 21 provincial grazing reserves which are in the northern part of the province. Typically, those are the kinds of areas that are more heavily tree covered.

The other thing we take a look at in our development is to try to do it in the most efficient way. In some cases development may be as easy as having to just go in and rebreak some existing sod. That would be a best case scenario. In other situations where there is heavier tree cover that's come in, then you have to bring in the heavier equipment of course.

It's the time factor as well. As you can understand, these reserves are located in areas which are pushing the fringe in terms of what you'd consider a really good, cultivated, available for annual crop production type of soil. So your development costs are going to be a little bit more bringing those back into production than you would expect in a better class soil.

Part of the reason they're developed as they are is so that you can get productivity off this land that, quite frankly, if there wasn't some development done on, its value to livestock and wildlife would be negligible. By doing our developmental work, we improve the carrying capacity severalfold and also provide increasing habitat for wildlife, which is another added advantage to them in terms of their management being done on a multiple-use basis.

MRS. LAING: My last question. This program is rescheduled to be completed at the end of the 1996-97 fiscal year. Will your department be requesting additional funding from this committee for this program? Maybe Mr. Radke could answer.

MR. RADKE: Perhaps I could start and John can supplement.

As we had indicated earlier, our intention is to make the operation of the provincial grazing reserves self-sufficient in terms of funding, including that portion of all our spending on grazing reserves that goes towards redevelopment or maintenance. Once the existing funding allocated under the heritage savings trust fund is completed, we will be in pretty good shape in most of these grazing reserves, such that the kind of additional charge we'll have to assess to producers will be sufficient to maintain those pastures in a good state of repair, if you'd like.

John, you can probably add to that.

MR. TACKABERRY: Sure. In total the term that we use for the capacity of grazing reserves is based on animal-unit months, and we have about 300,000 animal-unit months across the reserves that we're talking about. Our plan is to bring in a charge of \$3 per animal-unit month which will be used for future long-term development, which mathematically of course gives us roughly \$900,000. Because we've done the type of work over the past seven years where we've expended the total funding from heritage savings of about \$19 million, we've been able to get those lands, those 136,000 acres, into the kind of shape where they're well looked after. Then it will be a less expensive maintenance process that goes on.

11:34

Some of the other things that that \$3 per AUM will do will be to continue maintaining fences, to continue maintaining and developing new water sources as required – dugouts, for example – also for the maintenance of any corrals, or types of developmental work that are required in order to keep them in a productive capacity. That's been discussed as well with the 1,700 patrons. They understand the economics of the time and in large part are supportive of instituting that \$3 per AUM surcharge.

MRS. LAING: Thank you very much.

MR. WHITE: Mr. Minister, a number of the questions that have been asked and answered today revolve around the same subject. There's a question that, as a representative of a constituency in the city that has basically one end to the other stucco bungalows under \$100,000, I get asked all the time, and I'm hoping your answer is similar to the one that I give. It really revolves around two things. If you are born into the farming business, the government keeps you in that business. I know that's not the extent, but that's the feeling; that is, if you're not born into being a farmer, you can't get into it like dentistry or law or anything else. I mean, you just can't do it. Then the feeling is that you need a computer to keep track of all the programs that support farming and agribusiness. One I hear all the time is: "Gee whiz, are farmers in the business

of farming the land, or are they in the business of farming the governments?" Then the last one I guess that I hear – and I hear it an awful lot – is: "We hear the government is getting out of the business of being in government except the business of agribusiness and farming. They're in that up to here, and they're going to stay in it. Why is it?" Now, I look at Farming for the Future and grazing leases and irrigation in the southern part of the province, which all support farming and the farm infrastructure. I would like to know what the relatively succinct answer is so that I can explain that again, and hopefully it's the same one that I have.

MR. PASZKOWSKI: Well, thank you. That's a good question, and I appreciate that. First of all, as far as money that's being spent on research, money that's being spent on research is for the development of food. It's not necessarily there for the benefit of the agricultural producer. It's there primarily for the development of food and for the consumer, who of course is the general public. It's not just there for the individual producer himself. As a matter of fact, in many cases a lot of the research money that's spent doesn't benefit the producer directly at all. It actually benefits people living and employed in the urban community. Remember the statistic that I gave early in my introduction: 17 percent of our manufacturing is the food and beverage industry. It's very likely that many of those people in those white stucco homes are involved in some form of manufacturing that directly involves the use of agricultural products. So much of the research money that's being spent is not being spent in the actual production end. I don't have the statistics, but I would suggest that it's probably a small amount, relatively speaking.

[Mr. Dunford in the Chair]

As far as the grazing leases are concerned, we've indicated a program that we're exiting, that indeed is going to be a self-sufficient program. As far as the beginning farmer program is concerned, we have a 1.7 percent delay in payment, either those who are foreclosed on or behind in payments. So that in itself is a tremendous success story.

As far as agriculture being a drag on the economy or a lack of benefit to the general community, remember that it's the biggest single employer in Alberta. That in itself is an important statistic. The opportunities that are coming about from the areas of processing, of value adding in agriculture are greater than any other industry. It's a renewable resource that we can keep enhancing and building on and improving on. So I don't consider any of these processes of funding as a drag on the taxpayer. They're all there to benefit the taxpayer overall.

MR. RADKE: If I might add, I've never talked to a farmer who wanted to have subsidies to support his operation. I think what's happened is that since the U.S. farm Bill in 1985 we've gone through a silly period in which treasuries around the world have decided to subsidize agriculture. The U.S. and the Europeans, of course, got into a massive subsidy war which knocked the price out of grain products particularly and caused financial hardship to farmers in this country through no fault of their own.

As a result of that 1985 farm Bill, you got the EEP program, which was responsible for much of this problem, including subsidies under EEP that at times exceeded the total price that farmers were getting in Canada for their grain. For that period, while we collectively in the world sorted out our problems and came up with an agreement like GATT to get out of the subsidy

business, it became necessary for us to get farmers through this difficult period.

I think the farmers in Alberta are as efficient as any in the world and are prepared to compete with any in the world, provided they compete on a level playing field. For a short time we had to raise the playing field rather than level it so that we could survive this silly period. With the GATT agreement now, the North American free trade agreement, and the U.S. free trade agreement I think we're starting to see some semblance of sense in the way countries treat agriculture around the world, and because we can't be an island in that world, we've had to stay in that business until the sense started to emerge.

Just on the other point, about getting out of the business of being in business, at one time this department owned three inland grain terminals. We've sold those. At one time we owned a lamb processing plant in Innisfail. We sold that. At one time we owned a pork processing plant called Gainers, which we sold recently. We've recently privatized some veterinary clinics in northern Alberta. We had a canola crushing plant in Sexsmith, Alberta, which has now been sold. We had an AI centre in Leduc which has been sold. To my knowledge, the only thing we have left to get out of is the business of producing pheasants, and we're working on that.

MR. SPLANE: Maybe I can also go back to Mr. Dalla-Longa's question as well as yours, Lance. My quick answer is that we've had a cheap food policy. But if you look back for both historical reasons and reasons of fact, we've been in this lending business and it's now streamed primarily to the beginning farmer, because the major problem has to do with this generational transfer. It didn't start with this corporation. It started long before that with the Farm Purchase Board. The federal government got into it, and the reason for it was that, you know, credit would just dry up. On the business side it's always a little easier to get credit because they tend to understand that and it isn't as long-term and it isn't as high-risk and the capital markets are developed to service the business sector. You just don't see someone investing in common shares of a farming enterprise. It almost never happens. So that, just by way of some historical background. We're, I think, doing it better and are going to be able to graduate a lot of it, but I don't see the need going away quickly.

11:44

DR. TEKLEMARIAM: If I might make a minor addition to what has been said, Mr. Chairman, Mr. White, supporting agriculture. A reference has been made to agricultural research. Agricultural research and other agricultural programs are really helping not just farmers but society at large. One of the most important things that we are very proud of in this province and in this country is our food supply, the quality, the safety, and the price we pay for that food compared to what the Europeans pay, what the Japanese pay, and even some parts of the U.S. This high-quality, safe food product is made available at a very reasonable price to consumers in all urban areas of this province because of the programs and the service that we have for agriculture, which have allowed us to become a very effective and efficient producer of high-quality foods. Really, in essence we are supporting society at large through the programs we support in agriculture.

MR. TACKABERRY: If I could just add a point that might help you in explaining to the constituents. I really understand where you're coming from, being from an urban background. We've instituted a fairly substantial awareness, an agricultural awareness program in our schools throughout the province, and we're trying to target in about 5,000 teachers over the next 10 or so years that

will have a good understanding of the importance of agriculture and the kind of spin-off benefit that accrues to society at large. That's certainly a program that we think we need to keep some effort into so that people that are from nonagricultural backgrounds can understand the importance. Historically, you know, 40 or so years ago most people had somebody in their family that had some understanding of a farm, and they could maybe relate a little more. We recognize, too, that as time goes on, that percentage of people is getting fewer and fewer, so it's important for us to take that message and to make sure we keep up our efforts in ag awareness.

We've also instituted a program called the summer ag institute, where we bring in 30 teachers each summer for a two-week intensive training course in agriculture. It's supported by the University of Lethbridge, and it's fully accredited towards a master's program. The interest there would be that then you have groups of teachers that can go back into the school system and be better versed in terms of all the different sides of the agricultural story. There are a lot of things that are coming out that are based on, you know, partial bits of truth, and we think that the best way to get that education out to future generations is to make sure that the teachers themselves are brought up to speed on that.

AN HON. MEMBER: You can't really have a supplemental.

MR. WHITE: Yeah, a supplemental. It's a little tough to come after that.

If we took, not that I subscribe to it, the world according to Smith, I guess, the original Smith as well as the Smith that's in this House . . .

MR. SAPERS: Adam not Murray.

MR. WHITE: Yes, that's right. No. Murray not Adam, actually. . . . and you apply that and say, "Well, look; in Murray's business nobody helped him to do a thing," most of the arguments can be said, the same kind of arguments except for the fundamental food production, if we were at a state that food production was down to a necessity level. You say, "Look; it's natural selection," and he says, "The market, the market, the market, the market." You carry the same argument to the start-up farmer versus the start-up entrepreneur in the production of oil field equipment, and I can tell you it's 50 to 1 that the farmer will get government-supported funding as opposed to the other guy. All of that is guaranteed.

Now, I'd carry the other arguments too about primary production. The one argument that I always use – the deputy minister uses it – is the international cartel. But then I come back and say: well, where is the international cartel on corn production? Where is the international cartel on potato production? Where are all the subsidies? I can carry the one for grain because I know what the Europeans and the Australians and everybody else have done. But I still come to the same darn thing: the argument that says you've erred – all governments, we all err, but it's just a case of how much and how far off – and continue to err on the side of assistance to agricultural production, and you err on that side all the time. I don't have many arguments. When I hear all of your arguments – I can hear them, but then I hear Murray sitting back here saying and jabbing me: "Well, what about this? What about this? What about this?"

So I guess all of you collectively and individually answered rather well in your individual areas, but the same arguments can be held if you just transpose other sorts of businesses. It may be a challenge, and what Mr. Tackaberry has said may be the answer: get that word out. I don't know. It's your business not mine.

MR. PASZKOWSKI: I think the initial start has come about. This really goes back to a period right after World War II when there were people that were very hungry and starving to death. The countries, in particular the European countries – and that's where all of this has moved from, Europe – all decided that their people would never be hungry again. They were going to make sure that they produced enough food, not appreciating the creativity of the agricultural community and the ability of the agricultural community to produce. So there were huge subsidies put in place. Unfortunately, Alberta particularly and Canada as a country are exporting countries, so we have to compete regardless.

What happened in the European communities: not only did they become self-sufficient – which they weren't at one time; they were buying from us – but ultimately more than self-sufficient, so they were dumping onto the world marketplace. Now, when you're an exporting nation, the only way you're going to sell that product is at a competitive price. If indeed you're going to stay competitive – our long term has been exporting. It wasn't something that we just developed after the war in that we had a program that we were going to become self-sufficient. We were exporting before that. We have a large landmass. That's our natural advantage: to produce products that require large landmasses. The European natural advantage of course is in manufacturing things, and the Asian community as well. So you have to take advantage of the natural advantages that are there. That's the way we're doing it, but with the institution of GATT we're now in a process that's going to do away with that.

If we had a truly free marketplace in the world today, I could honestly say that I don't think there would be any need for government intervention in the agricultural community in Canada. We don't have that today, but with GATT – that's the ultimate objective of GATT, and that's the ultimate long-term goal: to be able to allow for free trade without any government intervention. We're on the right foot. We've taken the first step. It took a long time to get agriculture into that. Remember GATT was never part of agriculture until this last agreement – it's the first time that GATT is part of it – and that was a mistake because we didn't have a process to work through government intervention. Had we had agriculture as part of GATT from the beginning, we would not have got into the mess that we have.

I honestly think that with our investment in research, from my perspective at least, there are opportunities there that we haven't totally utilized. I look at the canola industry, where we're not able to produce to the need that's there. Canola is one industry where I feel that if we were able to double our production, we could probably improve our price by up to \$2 a bushel, simply because there is so much opportunity out there in diversified uses. But we don't have the capabilities to produce more because we have diseases and we have soil-borne problems that don't allow us to produce more intensively. We have to go through a fairly lengthy rotation. So there is still an opportunity there for additional research that can really enhance the opportunities of the general taxpayer.

11:54

MR. WHITE: No need for my third question. The third question, which the minister answered, was on getting out of the business when there was this level playing field.

Thank you.

MR. CHAIRMAN: All right; before we go to the next . . . Carol Haley, is that hon. member bothering you? Okay. Well, would you come to order please, hon. member.

MR. HAVELOCK: Are you referring to Murray?

MR. CHAIRMAN: The ghost of Murray.
Howard Sapers.

MR. SAPERS: Thanks, Mr. Chairman. Mr. Minister, the questions I have are regarding Farming for the Future and agricultural research, and I'd like to say that the questions are not about the value of agriculture to this province or to the people of this province, not about the value of research but, more specifically, about how research projects are prioritized and what degree of long-range planning there is when it comes to agricultural research. In the annual report it's noted that there are 99 research projects that have taken place, 96 demonstrations or demonstration projects that have been undertaken. The cumulative total since the inception of the Farming for the Future program I believe has been \$72 million spent out of the heritage savings trust fund. I'd like to know what the extent of funding is for commercializing the products of this research. To what extent has there been commercialization of the products? I'm assuming that you do in fact fund research that will lead to commercialization. We've discussed that a little bit today already. What part of the research funding do you consider to be venture funding or venture capital for the commercialization?

MR. PASZKOWSKI: Well, research of course is a very complex process and one that evolves over a very broad spectrum, right from the production end to the marketing end. We have tried to develop a streamlined process that starts right from the production, right through to the value-added component, to the final product. Of course, we're involved in research and all aspects of it. Whether it's on-farm demonstrations, whether it's in the Leduc centre, for example, whether it's dealing with market development groups, whether it's taking people abroad on a market development mission: that's part of research. So what we are trying to do is maintain that flow and that capability. I think what you're asking is: do we have measures of success of research? Is that what you're asking?

MR. SAPERS: No. Specifically, I want to know how you plan and if you plan for the commercialization of the research projects. If you do do that – I'm assuming that you must.

MR. PASZKOWSKI: Yes.

MR. SAPERS: How much money goes into commercialization and how much money do you therefore consider to be put at risk? In essence, it's venture capital funding for this kind of commercialization.

MR. PASZKOWSKI: Well, we've just hired a person that's going to do the development of barley, further uses of barley, for example. That's something that we've just initiated this past year. Dr. Jadhav has been hired to put that into place, and he'll be working out of the Food Processing Development Centre in Leduc, and that's because there appears to be a lot of uses for barley that are there that we can work with the industry to assist in.

MR. RADKE: In specific terms, in terms of what amount of money we put up to commercialize the results of research, the answer is zero. We engage in research that goes into the public domain, and we expect and indeed hope people will take the results of that research and commercialize it. But we don't finance that activity. We have some policies, that Yilma can explain, about when we obtain some return on that commercialization. We don't actually put up money to allow people to take the results of the research and commercialize them; we just fund the research.

DR. TEKLEMARIAM: All our projects are done jointly with another agency. It could be a university employee who applies for funding. It could be a private-sector company, the researcher, that applies for support. So the funding we provide is essentially on a joint basis. We do have a policy on intellectual property, but we don't actually engage in the direct production of a commercial product. If a commercial product did arise from a research project, then the organization – if it's a private company, the private company will develop it, and we will get, based on our agreement, a share of the benefits that come to us. The benefits would be proportional to our contribution to that project.

MR. SAPERS: Thank you. I guess I'm having a little bit of trouble reconciling that answer with the earlier comments of the minister when asked about research. Mr. Minister, I recall you saying words to the effect that the research doesn't go to subsidize in any way the producer but in fact the research benefits downstream, that the research benefits the ultimate consumers, and it benefits the people who take the products of the research. I'm paraphrasing your answer. So if you don't directly fund commercialization, yet you don't see the Farming for the future research dollars benefiting the producer, I guess I want to know more specifically: what kind of long-term plan do you have, and how do you therefore build the bridge between the research, which seems to be somewhat almost idiosyncratic, and the long-term needs in terms of our overall economic policy and furthering agricultural development in the province and exporting it?

MR. PASZKOWSKI: I think when you check *Hansard*, you'll find that the word I used was "much" of the research was useful for their development; not all goes to the producer. I'll stay with that statement. I certainly believe in that statement. I also made the statement that we start with the production and carry it right through, right on even to market development, which is considered research as well in a different form. So what we've tried to do and I think is very critical is maintain the flow, because remember what I said earlier also: we no longer sell what we grow; we're growing what we can sell. That goes back to research. It carries on throughout the process. I think if you check *Hansard*, what I had said was that "much" of the research is carried through to areas other than the producer. So I'll stand by my statement.

MR. RADKE: As I recall, the question was specific to Farming for the Future. We do have all kinds of programs throughout the department that assist in the technology transfer process in terms of getting the results of that research from the researcher's bench to people who can put it to use, but that's not done under the auspices of Farming for the Future except through the demonstration projects, which are an integral part of it.

The other point on which I'd want to take issue a little with you is with respect to idiosyncratic allocation of research priorities. In fact, we have a very sophisticated method of setting priorities. It begins with ensuring that the members of the board of directors of the Alberta Agricultural Research Institute come from all aspects of the industry: the primary production sector, the processing sector, the universities, the federal government, other research institutions, and so on. There are a number of detailed processes that the board of directors follow to set strategic priorities for research. The research proposals that come to the research institute are in fact measured against those strategic priorities by the members of the strategic committee itself and then referred to the board of directors. So before the research project that's submitted actually gets approved, it's gone through a very demanding process to ensure that it's the kind of research that needs to be done at this time, that it's being done in the right way, and that it makes sense to do that.

12:04

MR. CHAIRMAN: If I might. We're at the appointed hour for adjourning here, but there is one question that is left. Do you wish to ask that question, or would you like to defer it to your ag critic?

MR. SAPERS: Well, could we do both, with the consent of the committee, Mr. Chairman?

MR. CHAIRMAN: I don't think you'll get it. I've just given you my best offer. I think you'd better decide what you want to do.

MR. SAPERS: Thanks. Perhaps I'll correspond with the minister, because I would like to pick up on that notion of idiosyncratic funding. So I will be back in touch.

MR. CHAIRMAN: Good decision.
One question.

DR. NICOL: Mr. Minister, the Alberta heritage savings trust fund has an exposure associated with the port at Prince Rupert. We're seeing a lot of changes now in the grain transportation payments being done to the producer. We're going to see a lot of shift in the function of those ports. Do you see any kind of a threat to the exposure of the heritage savings trust fund in the change, and is there any kind of a program that you're looking at to kind of carry that over the adjustment until we get an increase in our exports that will bring the port back to full capacity?

MR. PASZKOWSKI: That's a valid question. At this stage, not knowing what the change is going to be, it's very difficult to project and anticipate what the future's going to have in store. We just met with our federal counterpart and the other western ministers three weeks ago, and at this stage the federal minister was still communicating to 90 farm organizations asking them what the change should be. It's very difficult for us to anticipate what his intentions will be as far as change is concerned. Once we've got some direction of what the change is – we've obviously laid our proposal out, and that would be: pay the farmer.

As far as exposure is concerned, yes, there's always exposure. However, what we want to do is minimize that exposure as much as possible of course. Prince Rupert has been functioning. The port has been doing very well in the last three years, and it's just a matter of time until we come up to speed. I think as long as we keep producing in volumes that we are producing, the exposure will be minimized.

MR. CHAIRMAN: Okay. Thank you, Mr. Minister and your staff. I really appreciate the co-operation. There's just been a tremendous amount of information that's been able to come forward through the answers by both yourself and your staff. I'm not sure whether any of our questions this morning dealt necessarily with last year's report, but there's just so much good news in agriculture these days that I was so glad you had an opportunity to get it out there.

MR. PASZKOWSKI: We appreciate the opportunity.

MR. CHAIRMAN: Thank you very much.

Before we dismiss, any member wishing to read a recommendation into the record? Seeing none, motion for adjournment please? Carried. Thank you.

[The committee adjourned at 12:08 p.m.]