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PUBLIC ACCOUNTS MEETING  
Wednesday, April 6, 1977

(Chairman: Mr. Taylor)

MR. CHAIRMAN: Will the Public Accounts Committee come to order, please. The first item of business is the minutes of the last meeting. On page 2, we will have a slight correction. That should be \$2.15 million and we may have a more detailed correction on that next meeting. Are there any other corrections or omissions? If not, a motion to adopt as amended would be in order.

Moved by Mr. Shaben, seconded by the hon. Mr. McCrae, that the minutes be adopted as amended.

The next meeting will be at 10 a.m. on Wednesday, April 20. I would like to introduce to the committee Mrs. Mary Adams, who is secretary last week and who did, I thought, an excellent job of the minutes and who is with us again this morning.

Now I'd like to again welcome the hon. Marvin Moore, Minister of Agriculture; Mr. Lorne C. Ordze, Chairman of the Board of Directors of the Alberta Agricultural Development Corporation; Mr. Vern Lawrence, General Manager of the Alberta Agricultural Development Corporation. It was agreed at the end of the last meeting that we'd continue with the list of speakers. The first one is Mr. Speaker, who is not here.

MR. CLAPK: Mr. Speaker unfortunately had to leave to go back home to his constituency.

MR. CHAIRMAN: Thank you. The next one is Mr. Mandeville.

MR. MANDEVILLE: Thank you, Mr. Chairman. My question is to Mr. Ordze. The question is on these ag. business loans. In some cases are some of these loans with the Agricultural Development Corporation and some of them with the Opportunity Company as well? Do they work together?

MR. ORDZE: We try to differentiate in our agribusiness loans between AOC and ADC.

MR. CHAIRMAN: Mr. Ordze, could you speak a little louder, please?

MR. ORDZE: Oh, I'm sorry.

MR. CHAIRMAN: I was wondering if I could interrupt for a moment. I notice in Public Accounts Committee when the members and witnesses remain seated the hearing was much better. Would it be satisfactory with the committee if everyone remains seated?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Good. Mr. Ordze, if you'd like to do that it seems to catch your voice better. I'm sorry for the interruption.

MR. ORDZE: We try to differentiate between AOC and ADC applications. The way we do it is a rule of thumb. If a company is processing an agricultural product that is going back into the field of agriculture, ADC definitely handles those. We get many of them that kind of fit into a gray area where some go to ADC and some to AOC. I suppose a cheese plant would be a prime example of that. We feel that we probably have available to us much more information to review a cheese plant than AOC would.

MR. MANDEVILLE: Supplementary question, Mr. Chairman. Do I understand Mr. Ordze to say that some of these would have duplicate loans -- have a loan with ADC and another loan with the Opportunity Company?

MR. MOORE: The Alberta Opportunity Company does not have the ability to guarantee loans such as the Alberta Agricultural Development Corporation has. There are a number of cases where the Alberta Opportunity Company has provided capital financing by way of direct loans, and the Agricultural Development Corporation has then come in and guaranteed operating capital loans from a chartered bank, Treasury Branch or credit union. I'm not exactly sure how many of those there are, but that is a common procedure. In each case, of course,

the Alberta Opportunity Company staff and ADC staff and board of directors are well aware of the other corporation's involvement. In fact, that is one of the reasons Mr. Orze sits on the board of directors of the Alberta Opportunity Company and attends all their meetings, to ensure that where there is a case where both corporations are lending to the same company or individual that they are knowledgeable about the amount of loans and so on.

MR. MANDEVILLE: Supplementary question, Mr. Chairman. Do they have an agreement as far as taking security? Do the ADC and AOC have the same security or do they have the same second or first mortgage, whatever the case may be?

MR. MOORE: Generally speaking, Mr. Chairman, in the cases I mentioned where the Alberta Opportunity Company provides the capital financing, they would apply their security by way of the capital assets, generally by way of a first mortgage. In the case of the Alberta Agricultural Development Corporation providing operating capital through a guaranteed loan, the security is generally in the nature of first call on accounts receivable and inventory. The onus is on the particular bank that has made the loan guaranteed by ADC to ensure that the inventory and the accounts receivable are in balance with the amount of the loan.

I think it's fair to say that in general circumstances the amount of a guaranteed loan for operating capital would be in the amount of about 80 per cent, Mr. Orze, of the total accounts receivable and inventory that may be carried.

MR. MANDEVILLE: Mr. Chairman, does the Alberta Agricultural Development Corporation take personal guarantees involved in co-ops as does the Opportunity Company?

MR. ORDZE: Were you specifying co-ops, Mr. Mandeville?

MR. MANDEVILLE: Co-ops, yes.

MR. ORDZE: We haven't been taking personal guarantees with co-ops.

DR. WEBBER: Mr. Chairman, the Land Use Forum, which sent in its report over a year ago now, indicated that there was a concern in their hearings related to the family farm. In particular there were concerns with regard to the problems of those wanting to enter the industry because of high capital investment and so on. One of the objectives of the Ag. Development Corporation is to maintain and develop viable family units. The forum recognized this and indicated that they believed that the government acted wisely in forming this loaning agency. However, I notice in the annual report that there is a significant drop in the direct farm loans from 1974-75 to 1975-76, particularly in the beginning farmers. There was a drop from 192 to 58. I was wondering if the minister could comment on this particular phenomenon.

MR. MOORE: Mr. Chairman, that is correct that there has been some drop in the total farm loans and beginner farmer loans over the course of probably the last two years. The reason is that applications that are put forward to ADC on a number of occasions cannot be supported because the market value of the land has exceeded the productive agricultural value and the cash flow statements that are projected for that enterprise simply do not add up.

It's the responsibility of the corporation, in addition to providing financing for new people to get into agriculture, to ensure that the corporation does not put themselves in a position where they are assisting in inflating land values. Quite obviously, land values are very closely related to the availability of credit and the interest rates. Farm Credit Corporation as well has some responsibility in that area. If you review their report for the last year you'll see that they had some decrease in lending as well because of the same reason.

As to what can be done about that situation, we've had discussions and debates about the degree of pressure on Alberta farm land in terms of foreign purchasing and so on and those are matters that are really outside the jurisdiction of the Agricultural Development Corporation, of course, but certainly in some instances do have an effect.

DR. WEBBER: Mr. Chairman, to the minister. The Land Use Forum made a recommendation, and I can read that recommendation: "We recommend that any discrimination by tax authorities and by government and other lending agencies against part-time farmers be discouraged". I was wondering, what are the policies of the Ag. Development Corporation with respect to loans to part-time farmers, however a part-time farmer is defined.

MR. MOORE: The Agricultural Development Corporation is the only government lending institution of its nature that does make loans to part-time farmers. They are made, however, on the basis that the part-time farmer is securing the loan with a view to becoming fully employed in agriculture.

In other words, a full-time farmer. For those purposes, and in order to ensure that he meets the goal, a higher interest rate is charged for a short

period of time until he meets the requirements of being a full-time farmer. I believe the interest rate is 2 per cent higher than the regular lending rate. It then reverts to the regular lending rate if he or she meets their commitment to become a full-time farmer.

MR. BRADLEY: I have a question with regard to page 49 of the public accounts, volume 2.

MR. CHAIRMAN: You may remain seated if you like, Mr. Bradley.

MR. BRADLEY: Oh, okay. It's under the programs which are administered by the corporation but directly programs of the Department of Agriculture. There are four areas mentioned: an emergency crop program interest rebate; adverse weather program grants; dairy development rebates; and, vegetable rebates. I wonder if the minister might elaborate on those particular expenditures as to what they involve and what the exact natures of the programs are.

MR. CHAIRMAN: Would you repeat the question, Mr. Bradley? We didn't hear you.

MR. BRADLEY: It's on page 49 of volume 2 of the public accounts with regard to Department of Agriculture programs which are administered by the corporation. There are four programs mentioned: the emergency crop program interest rebates; the adverse weather program grants; dairy development rebates, and; vegetable rebates. I wonder if the minister might comment on what exactly these programs are.

MR. MOORE: Mr. Chairman, the vegetable rebate program was a program of a special nature developed in the Agricultural Development Corporation to assist vegetable producers with the development of storage, mainly in southern Alberta. The costs that are shown there are rebates on interest on loans. The dairy development program is precisely the same thing. Loans were provided at 2 per cent less than the regular lending rate of ADC and show as a cost to the corporation if the individual met his commitments to develop in the dairy industry. Perhaps I could ask Mr. Ordze to comment on the adverse weather program grants.

MR. ORDZE: Perhaps I should mention the emergency crop program first. That program was initiated in 1975 or 1976. Loans were made to farmers because of adverse crop conditions that fall. The following year the adverse weather program was a grant program and these grants were given to farmers and to those who had emergency crop loans out the amount of the grant went against that loan and whatever the balance was, the farmer had to repay. The emergency crop program now is just about completely cleared up.

MR. CHAIRMAN: Mr. Rogers would like to make a comment.

MR. ROGERS: Just a comment on the programs that have just been mentioned. These amounts are also included in the \$7 million that is just above there -- the contributions by the Province of Alberta. So the corporation is reimbursed for expenditures it made.

MR. BRADLEY: I'm wondering if the Agricultural Development Corporation has a breakdown with regard to the number of individuals involved in each one of these grants under that particular item and as to the distribution by region.

MR. MOORE: Mr. Chairman, that breakdown would be available, either from the department or from the Agricultural Development Corporation, but we don't have it with us.

MR. BRADLEY: Would I be able to receive that information?

MR. NOTLEY: I'd like to, if I could, move on from general questions to one specific case and that's Northern Alberta Agribusiness, an alfalfa plant in Falher that obtained a \$1 million guarantee on July 3, 1974, and then on December 9, 1974 that was increased to \$1.5 million. The first question, Mr. Chairman, to any of the gentlemen is, just what is the current status of that loan guarantee to Northern Alberta Agribusiness, who is currently the owner, and who is operating the Falher plant?

MR. ORDZE: They are current. They had a good year. At the present time we have not heard anything that would indicate that there are any problems that will arise with the plant.

MR. NOTLEY: This is not a supplementary. I asked in the first question in addition who was the current owner and the current operator.

MR. ORDZE: The principals are the Zeiter brothers.

MR. MOORE: Perhaps, Mr. Chairman, a brief explanation of some of the events there over the course of the last two years. That particular plant was first

built in a partnership between the Zeiter brothers and a gentleman by the name of Dr. Otto Happel, who was a resident of West Germany. After the plant had been constructed and was in operation for about a year, some difficulties arose between the partners and the account, including some principal and interest, was in arrears. The difficulties in the partnership did not appear to be being resolved and there was a fear by the corporation that some of the assets that were held as security may not be secure. That was the reason that the plant was placed into a receivership position, I believe about a year ago.

That receivership position was only maintained for a short period of time. Shortly after that the partnership resolved their difficulties and my understanding is that the Zeiter brothers became the sole owners, brought their accounts with the corporation up to date and the receivership position was released. So the situation there, insofar as the corporation's security and the repayment of the loan and the interest, is current, and as Mr. Ordze indicated, we expect it to stay that way. The plant is operating quite successfully.

MR. NOTLEY: Mr. Chairman, to Mr. Moore. When the original plant was built, and the original partnership set up, there was a fair amount of land -- I believe according to Motion for a Return 218 about, if I'm not mistaken 11,500 acres of land -- held by the company and its principals. Now I gather that that land has now reverted to Dr. Happel, has it not? My question really is sort of a two-fold question. Number one, was any of that guarantee money, either the \$1 million or the reconvered \$1.5 million on December 9 used in the actual purchase of any of those 11,500 acres of land?

MR. MOORE: Mr. Chairman, no it was not. The land was purchased before the plant was built and the loan of \$1 million and the further extension to \$1.5 million was made to the company, not the individual, well after the purchase of the farm land. This was indicated in the motion for a return answer. The company and its principals do not own very much land now, and that has simply occurred because the owner of the land is no longer a principal in the company. The land is still owned by the same individual, but by way of the fact that that individual is no longer a part of the alfalfa plant and Northern Alberta Agribusiness, they do not own that land. But so far as I'm aware, that land is still held by the original purchaser, Dr. Happel.

MR. NOTLEY: Mr. Chairman, to the minister or perhaps to Mr. Ordze, what considerations were made by the corporation at the time of this particular project? Admittedly right now there is a separation between Dr. Happel who owns these 80 quarter-sections of land and the company, but when the concept was originally brought forward it was really to be both the land and the agribusiness firm as I understand it. The specific question I would put is, was there any concern by the board at the time about a project which would see quite a number of individual farmers -- I think somewhere in the neighbourhood of 20 families -- bought out to become part of a land base, if you like, for an agribusiness concern, as opposed to the normal agribusiness approach of being set up and then working out contracts or arrangements with individual farmers in the area?

MR. MOORE: Mr. Chairman, as I mentioned in my earlier answer, the application for a loan to the Agricultural Development Corporation was after the fact. The land had already been secured. The plant was under construction, and there was no choice presented to the board of directors as to whether or not it would be in the public interest, if you want to put it that way, to make a loan that might entail the purchase of a large quantity of farm land, because the purchase had already been made. Some of the criteria that were involved in the decision, of course, involved the fact that the plant in question is a double drum processing plant that would have entailed the purchase of alfalfa from a good number of farmers in the area aside from the land that was owned by the principals of the company. Mr. Ordze may want to expand upon that.

MR. NOTLEY: A general question then, and I don't pose this to be argumentative. You could say that the land was purchased and therefore it was not a relevant consideration, but then one had to make the decision on whether or not the \$1.5 million guarantee would be made, bearing in mind that part of the operation as it was originally planned included a land base. My question, and this is a general question of policy, what is the position of the ADC with respect to agribusiness actually purchasing land either directly or through some connected holding company indirectly to provide a land base? Is there any sort of established policy at this point in time?

MR. MOORE: Mr. Chairman, the Agricultural Development Corporation, and indeed my office from time to time, receive requests to consider loan guarantee or direct loans for the purchase of fairly large quantities of land. In every case, we take the position that the corporation was established to assist the family farm unit and do not make loans for the outright purchase of large blocks of land by an agribusiness or corporations or individuals. It is considered that that operation is beyond a rather normal size.

With respect to the loan in question, the alfalfa plant and the land in Falher, my office was approached by the partners in the company as to whether or

not we would consider, as a matter of policy, additional lending to the Northern Alberta Agriculture, that might allow them to purchase the land from the individual who owned it and I don't believe that that ever got to the board of directors of the corporation. I advised them that quite frankly there wouldn't be the slightest possibility that we would provide either a direct loan or a loan guarantee for the purchase of the land.

MR. APPLEBY: Mr. Chairman, the original concept of ADC I think was pretty clear. It was going to provide a much needed source of credit for the farming community and certainly I think this proposed concept has been very well accepted. From time to time the Legislature found it necessary to make additional appropriations of funds in order to meet the almost unanticipated volume of requests for loans.

Looking at the report for this year, I notice that comparing the current year with the previous year, there has been, with the exception of the agriculture loans and the beginning farmer loans, some decrease in the amount expended or guaranteed in loans this year. I'm just wondering now if the ADC board have come to any conclusions as to the condition of the total fund, as to whether it's in a stable condition as far as the revolving aspect is concerned and might be self-sustaining in the immediate foreseeable future, say in the next five years, without any additional funds by the Legislature?

MR. MOORE: Mr. Chairman, it's doubtful if the fund at its present level will be self-sustaining. The first \$50 million of funds provided to the corporation by legislation bear no interest payable to the Provincial Treasurer. However, the balance of \$100 million which is advanced from the Provincial Treasurer does bear interest. From that revolving fund as the result of the changes which were made in The Agricultural Development Corporation Act of a year ago last December, it's necessary for the corporation to pay any losses that they may incur or any special programs that they may develop by way of interest rebates or something of that nature. So depending, of course, on the level of borrowing, the corporation will, in all likelihood within the next year, need a change in the act to maintain the level of borrowings on an average such as they may have been, say, over the last three years.

The alternative, of course, would be for the corporation, when they reach the level of \$150 million outstanding, to simply lend whatever is available as a return to the revolving fund throughout the course of the year and cut off all loans at the point that those funds are used up.

I might say, Mr. Chairman, with respect to the interest perhaps Mr. Rogers might have some further comments. I believe I was correct in saying the first \$50 million does not bear interest and on the last \$100 million, interest is required to be paid to the Provincial Treasurer.

MR. ROGERS: That is under the authority of a Treasury Board Minute. I just forget the number of it, but it applies to all such advances.

MR. APPLEBY: Mr. Chairman, as a follow-up, from time to time concerns are expressed to me about the length of time before a decision is made on a loan application. I wonder, Mr. Chairman, just how often these procedures regarding decision-making are reviewed. Is it updated from time to time in order to try to achieve a more expeditious way of making decisions regarding loan applications?

MR. MOORE: Mr. Chairman, in the early growth of the corporation, particularly when a lot of loan applications were received in one district or region, there were some difficulties in delays in processing, some of which could be considered the fault of the corporation staff in the field, some of which oftentimes were the fault of farmers who did not provide appropriate and full enough information with respect to their farm financing plan.

In June of 1975, after some considerable discussion between myself, the chairman of the board, the board of directors, and management, we developed a system whereby an application which is forwarded from a local loans officer or regional office to the head office in Camrose is dealt with within 10 working days, either in the form of an approval, a rejection, or a request for additional information if that is required. So far as I'm aware, we've been able to hold with perhaps a very few exceptions to that schedule. So an individual does not have to wait any longer than two weeks in a normal situation to get some kind of an answer from the corporation.

I might add, however, that that does not apply to the dealings between a farmer and the local loans officer. We do have occasions where an individual will go to a loans officer and say, well I would like to get a loan to purchase land or do something else, and he's given an application form and some assistance is provided and he goes home, but doesn't bring the application form back and then a couple months later he phones my office or some MLA and says, I haven't got my loan; in fact, it has never gone past the local loans officer. So there is an onus on an individual who is making application to ADC to make very sure that his application is completed, that the local loans officer has all the information he needs and that it's forwarded to the head office.

MR. APPLEBY: Mr. Chairman, there is just a question I would like to ask regarding security of this information on an applicant's file. Is that kept strictly within the corporation as far as the information is concerned, or is it available to any outside sources?

MR. MOORE: Mr. Chairman, with respect to agribusiness loans we have provided a certain amount of information which was provided to this committee three weeks ago. With respect to individual farm loans, the information with regard to any individual is kept confidential within the files of the corporation and the board of directors, with the exception of my office. I do not receive in my office every individual file or anything like that, but do, from time to time when requests are made to my office to have the Board of directors reconsider or to look again at a particular loan, I request the file. In addition to that, I have told Members of the Legislative Assembly that on a confidential basis related to their constituency, I would be prepared to provide them with some information about a constituent of theirs who may have a loan or a loan application before the Agricultural Development Corporation. So that has been done on a number of occasions, but it's not, Mr. Chairman, for public information. It's only to assist the MLA in understanding what the problem is.

MR. APPLEBY: Finally, Mr. Chairman, noticing in the annual report the change in the accounting policy regarding provision for probable losses on loans, direct and guaranteed both -- that's on page 27 -- and it provides for something over \$4 million this year. I just was wondering if this would be in line with the ratio of losses to loans as had been issued in previous years. Has this figure been arrived at from information that has been compiled as to the rate of loss over previous years?

MR. MOORE: Mr. Chairman, Mr. Rogers may want to correct me, but I believe that previous to this financial statement, provisions were not made by the corporation for losses, and that was one of the areas in which the Provincial Auditor requested the corporation to change its accounting procedures. So therefore it's difficult to compare with past years. But I think, Mr. Chairman, it would be fair to say that the growth of the corporation from its development in 1972 until now has been of such a nature in terms of the loans that are made that you would anticipate your losses for uncollectable accounts to occur in greater frequency in the third or fourth year. In other words, it isn't often that a loan becomes in default in 12 months or 24 months and provisions are made to write it off or to indicate in the financial statement that there is a potential loss there. I would expect that in years to come you will see similar types of figures with regard to the corporation's losses or expected losses, provisions for losses. Mr. Rogers, did you want to add anything to that?

MR. ROGERS: Yes. The actual amounts that were provided were arrived at as the result of an examination and a review of the accounts. These were discussed with management. It was on that basis that management arrived at the provision, together with my representatives carrying out the audit. One of the changes also of course was the provision for possible future losses against the guarantees referred to in note 9. The necessity for this arose from the change in legislation on December 15, 1975.

MR. CLARK: Mr. Chairman, I have a number of questions. I guess I ask for your guidance, Mr. Chairman. When a member asks questions the week previous, as I did with regard to Faith Farms at Wetaskiwin, and asks the officials to bring back answers to several questions, I would say, Mr. Chairman, that it puts a member in somewhat of a difficult situation in having to use his questions for the following week to get the answers he's asked for in the week previous.

MR. CHAIRMAN: I don't think we'd count that as a question if you asked if they brought the information back.

MR. CLARK: Okay. Then I asked the gentlemen from the corporation to answer a number of questions with regard to Faith Farms. Have they the information today, and could they make it available now?

MR. CHAIRMAN: Perhaps I erred in not asking the witnesses if they brought back the information requested. Perhaps I should do that now.

MR. ORDZE: I brought back the information as to the equity investment made by the Scardillos. That's the only one I had.

MR. CLARK: Mr. Chairman, I believe if the minister checked, reference was made to Scardillo brothers buying milk from the producers at \$6.75 and selling it to the Central Alberta Dairy Pool at \$6.25 and I asked for the justification for that and how the corporation allowed that to go on. Perhaps you could bring that back for next week. If you will then, both. Can I have the answer to the first one, too.

MR. CHAIRMAN: Do you have the answers, Mr. Ordze?

MR. ORDZE: Yes. The book value of the fixed assets of the Two Hills cheese factory was on the basis of audited financial statements dated February 28, 1973 and they were \$65,807. These assets were transferred to Scardillo Brothers Company Limited when the sale of the Two Hills plant failed. In addition, Tony Scardillo invested a further \$45,000 into Scardillo Brothers Company Limited by way of shareholders loans of \$18,000, purchase of common stock, and payment of supplier's invoices. This comes to a total of \$110,807.

MR. CLARK: Just so I have that clear, Mr. Chairman, Scardillos initially agreed to put into the proposition \$110,807 out of approximately \$300,000 requested for the first application of assistance from the corporation. Is that the situation when this whole thing started?

MR. ORDZE: Their equity contribution was \$110,807 and the loans that were guaranteed were \$330,000.

MR. CLARK: Following along to the first question, Mr. Ordze, I wonder if you could explain to us what the reason was for this loan of \$330,000 expanding the way it did up to an amount which is included on page 3 of the information that you gave us the first day. I suppose a conservative estimate would be well in excess of \$1 million, the total loans and guarantees that were made to Scardillo Brothers and now Faith Farms. So what I'd like, Mr. Chairman, is for Mr. Ordze to explain how this loan went from the \$330,000 that initially was made available to the amount that it is today.

MR. ORDZE: If I could just have a moment here, please. I gave a very brief outline last week of happenings over the course of the years with the cheese plant. The figures that you see on the agribusiness list today -- it's pretty hard to relate them straight to Scardillo Brothers Company Limited because many, many things have happened since then, as I outlined.

I suppose the simplest way to answer your question of how the loans increased from the \$330,000 that was initially approved to a much larger amount which I just can't give you off the top of my head -- I'm sorry, here it is. Yes, it's up around \$1 million. To start with, the \$330,000 didn't do the job because of overruns.

MR. CLARK: I'm sorry, Mr. Chairman, to keep interrupting, but to Mr. Ordze -- this is going to take a great deal of time unless you are going to give us step by step by step.

MR. ORDZE: I can't give it to you concise and simple. It's not possible unless I submit a long report.

MR. CLARK: Well, that's what we want, Mr. Ordze, because you're going to keep coming back and I'm going to keep asking the questions until we get a detailed breakdown of -- really what I want, Mr. Ordze, and I'm sorry I didn't make it clear earlier, is a breakdown on the reasons for the additional finance on every occasion that the Ag. Development Corporation felt it was necessary for additional finance. If I didn't make that clear to you, I'm sorry.

MR. MOORE: Mr. Chairman, we're prepared to provide that by way of information now. It will take some time.

MR. ORDZE: Well, I can't go back to the beginning and explain it off the top of my head. I was not aware that the question was asked last week that I was to know each increase in these loans and to explain how they came about. I do not believe I was asked that question.

MR. CHAIRMAN: Well, Mr. Ordze or the hon. Mr. Moore, do you want to prepare that in writing? Is this your suggestion?

MR. MOORE: Mr. Chairman, I don't know exactly what the hon. Member for Olds-Didsbury is looking for, but I think the statement that was provided a week ago, if he would review that, would indicate a good number of the reasons the Scardillo Brothers company failed and what steps were taken by the corporation then. Indeed we indicate the concern with respect to a number of producers who were hauling to the plant and so on. In terms of the loan guarantee rising from \$330,000 to \$1 million, that was because of a variety of reasons which included plant cost overrun initially. Secondly, included in that \$1 million is some operating losses which occurred while Scardillo Brothers were operating the plant that were transferred in total to the new owners, Faith Farms Limited. There are some reasons that have to do with taxation, and also with the ability of the company to obtain a DREF grant that involved the transfer of those losses which are included in the \$1 million loan.

In addition to that, the new operators of the plant were successful in increasing the production of the plant rather dramatically by some additional capital expenditures. Together with that was the requirement that the storage for cheese be increased substantially so that they might be in a better position to service their customers with mild, medium, and old cheese. All of those things simply added up to a capital cost of \$1 million. In addition to that,

while it's normally the practice of the corporation to have something in the order of perhaps 15 to 25 per cent equity by the individual, in the case of Faith Farms Limited, that did not occur. It was in a receivership position, and the Agricultural Development Corporation was, for all intents and purposes, the sole owner of the Wetaskiwin cheese plant and we had to either sell the assets for whatever they would bring on the open market which, in all likelihood would have meant that it wouldn't be a cheese plant and we'd have gotten very little, or we had to find someone who had capable management to run it together with some financing. Mr. Ordze and other members of the staff of the corporation spent some considerable time trying to find someone who had both capable management and some assets to put into the operation. We were unsuccessful in finding an individual with both of those things going for them.

However, the Corning people, who are the owners of Faith Farms and come from Saskatchewan had a considerable amount of experience in the manufacture of cheese and the management of a cheese plant. So it finally became our view that the plant should be sold to them with little or no financing on their part, although there are personal guarantees involved. So that accounts for a fair portion of the \$1 million, the fact that the plant is close to 100 per cent financed by the Agricultural Development Corporation.

You will note that the original loan was for \$330,000, with \$110,807 of equity from Scardillo Brothers. That was a total of \$440,000. So actually the loan, Mr. Chairman, has increased to just over double what it was when the original concept was developed.

Just to review very briefly that increase to double what it was at that time resulted in cost overruns, resulted in losses that were incurred by Scardillo Brothers that were taken over by the new owners and resulted as well from some changes that had to be made to the plant to increase its capacity and some additions that had to be made to bring it into a viable position. Now there may be some questions, Mr. Chairman, arising out of what I've said, that I think we could answer.

MR. CLARK: Mr. Chairman, I appreciate the minister's comments, but really what I'm asking for is a detailed breakdown from the Agricultural Development Corporation for the reasons for all the additional money that went in, and not just general statements. All sorts of concerns have been expressed, I'm sure to the minister, to the Ag. Development Corporation about the cost overruns. We can start there. We can talk about the management and the wages that various people were being paid by Scardillo brothers and various reasons the debt situation developed.

Really, Mr. Chairman, what I'd like from the corporation is a very detailed breakdown of all the reasons the corporation knows of as to why this loan went from \$330,000 to a loan that now is \$1,155,000. I recall asking the question in the House when the loan was originally made and I was assured at that time that there was capable management and those things. I really am asking Mr. Ordze to prepare for the committee as detailed a breakdown as the corporation can give us of reasons for the loan going from \$330,000 to \$1,155,000 today. If Mr. Ordze could have that back for the next meeting that would be extremely helpful.

MR. MOORE: Mr. Chairman, I provided generally, I think, a good overview of the reasons the loan went from \$330,000 to in excess of \$1 million, as it is today. Quite frankly, we're not prepared, Mr. Chairman, to provide the books of the company. As I indicated earlier, we're prepared to provide a fair amount of information with respect to agribusiness loans. We've done that. We're prepared to answer questions with respect to any specific part of the loan. But insofar as writing a detailed report of every single action that occurred in this plant over the course of the last five years and dragging out the files of the Agricultural Development Corporation, we're simply not prepared to do that.

MR. CLARK: Mr. Chairman, we're not asking the minister to bring the files of the corporation here to the Public Accounts Committee. Maybe we should be, but we're not. What we're asking the corporation to do is to give us the information and the reasons the loans increased from \$330,000 to well over \$1 million. If this committee isn't entitled to have that information in detail, then who in the world is?

MR. MOORE: Mr. Chairman, in all fairness, we've provided a fair amount of that at the last meeting and again this morning. If the hon. member, Mr. Chairman, has further questions with regard to any aspect of that loan, we'd be pleased to try to answer them, but as far as developing a bunch of information -- we're not exactly sure, quite frankly, what aspect of the loan the individual member is asking for.

MR. CLARK: Mr. Chairman, then I'll be much more specific to the minister. Will the corporation give to us the reason, the specific reason, for the increase in the guarantee going from \$330,000 to well over \$1 million, whatever it is today? Now, several times the corporation agreed to increase the borrowings or the guarantee. Now surely it's reasonable to ask for the justification for each of those occasions that the corporation accepted so that they increased the guarantee or increased the liability of the people of Alberta. Certainly that's a reasonable question.



MR. MOORE: I've answered the question in fair detail. If the hon. member would listen, I'll answer it again. Quite frankly, there are a number of reasons, but three that are important. One of the reasons it has increased to \$1 million is that the corporation is financing 100 per cent or close to 100 per cent of the loan and there is little or no equity in it. Secondly, Mr. Chairman, I indicated that the new owners, for tax reasons and for reasons of being able to secure a nutritive processing grant from Alberta Agriculture and the Department of Regional and Economic Expansion federally were required to assume the losses that had occurred by the Scardillo Brothers Company which in fact were a responsibility of the Agricultural Development Corporation. In addition to that, there were cost overruns from the original projected cost of the plant and even after those cost overruns the new management of the plant felt that the plant could operate in a more profitable position if changes were made with respect to the operation of the plant that entailed some additional equipment and indeed some additional storage capacity.

Now I don't know beyond that, Mr. Chairman, what we can say.

MR. CLARK: Mr. Chairman, can I come back to the minister and say, Mr. Minister, therein lies the problem. The reasons that you gave us were the 100 per cent of the loan now being carried by the corporation -- fair ball. The second reason that you gave us was the cost overruns. The third reason that you gave us was that the management today felt that there was a need for additional money to be spent -- fair ball. But, Mr. Minister, our problem is that the only reason which relates to the Scardillo Brothers' involvement and basically that time when the thing tripled is just cost overruns, Mr. Minister. Give us the breakdown.

MR. MOORE: There are a number of reasons why the loan went from \$330,000 to \$1 million. They are not just cost overruns. There are other reasons as well.

MR. CLARK: What are they then? And how much money can be attributed to each of the reasons?

AN HON. MEMBER: We're waiting.

MR. CHAIRMAN: Would it be possible to get a breakdown in writing of this particular item?

MR. McCRAE: Mr. Chairman, in all fairness, I'm not understanding the direction of the questions. I'm sure the minister is sharing the same difficulty in finding out what the member is getting at. I think what he's asking is, was the security adequate for each of these increases. That isn't it, apparently. He's wagging his head negatively. I don't frankly understand what he's getting at. He's asked a series of general questions. He's had a response from the minister and I think it's up to him to tie it down specifically what it is he'd like to ask a question on. He's asked questions and apparently he's not satisfied with the answers but the type of question is so general that I don't know how the minister would respond. I think he needs to be specific and ask something that is able to be answered in other than a general fashion.

MR. CHAIRMAN: Hon. members, I don't think it's up to the Chair to decide what the members are getting at. He had asked for a breakdown of expenditures in public accounts, and it would be my view that the committee is entitled to a breakdown of that expenditure.

MR. MOORE: Mr. Chairman, the breakdown is provided on page 3 of the agribusiness loans document that I provided at the first meeting of this committee. The hon. Member for Olds-Didsbury is asking for the reasons why those individual loans as they are broken down were provided. The breakdown is there, provided on the first day that this committee met three weeks ago.

MR. CHAIRMAN: Mr. Clark, the breakdown appears to be on page 3 of the statement.

MR. CLARK: Mr. Chairman, if we could get the reason for each of these loans being made at that time, the specific reason -- for example, there must have been a very specific reason for why on May 10, 1973, \$300,000; on May 21, 1974, \$50,000; for June 20, 1974, \$100,000; for August 8, 1974, not more than two months later, another \$200,000. What I want, Mr. Chairman, very specifically so even the member from Calgary can understand it is, what was the specific reason for each one of those loans?

MR. CHAIRMAN: Hon. Mr. Moore, could you give the main reason for each of those loans?

MR. McCRAE: Mr. Chairman, could I object? I understand the answers, it's the questions I have difficulty with.

MR. CLARK: That's not the only thing you have difficulty with.

MR. MOORE: Mr. Chairman, we might spend some time right now going through them one by one if the hon. member wishes. His first question, quite frankly, was what were the general reasons with respect to the loan increasing from \$330,000 to in excess of \$1 million. I answered that question by stating what those reasons were. We can go through them one by one and the members can ask their questions and their supplementaries as we go.

MR. NOTLEY: Just on a point of order, Mr. Minister, so that we get the thing straight right from the word go here. As I look at page 3 it seems to me that the total loans is not, in fact, just over \$1 million, but is \$1,500,000, \$1 million and \$550,000 -- correct me if I'm wrong -- which would mean \$1,705,000. Is that correct? That is, in fact, the new status and takes in all these other loans -- would that be a fair assessment of the situation so that we're all starting from the same gate so to speak in looking at this.

MR. MOORE: Mr. Chairman, there needs to be a breakdown between capital and operating. In fact, the total amount of guaranteed loans to Faith Farms Limited, which is public knowledge and passed by Order in Council, is in excess of \$3 million. But roughly \$2 million of that, Mr. Ordze, is for operating capital for accounts receivable and inventory. So the member is correct in saying that the \$550,000 should also be included.

MR. NOTLEY: On a point of order, just so we get it straight. That is a consolidation of these other loans, correct?

MR. MOORE: Mr. Chairman, the bottom seven loans on that page have all been refinanced by way of the first three to Faith Farms Limited. I'm sorry for the confusion, but this contains the loans that were approved the date they were approved and the contingent liability of the corporation. The best place to consider what's presently outstanding is under the contingent liability column as of December 31, 1976. Since that time the contingent liability has, of course, changed slightly but not appreciably.

MR. NOTLEY: So that would be \$1,478,000 as a point of order. Or would it be the contingent liability of all of them?

MR. MOORE: Mr. Chairman, if members will look at the top of the page under Dairy World Foods Limited, Wetaskiwin cheese marketing, they will see two loans, one in the amount of \$145,000 and one in the amount of \$1,450,000. The contingent liability on those two loans is zero on the first one, \$250,740 on the second one, and the seven loans at the bottom of the page which still show a contingent liability will be transferred to the Dairy World Foods loans which are up above. The reason for the new company name largely involved the nutritive processing grant.

MR. CLARK: So Dairy World Foods Limited is really the same as Faith Farms, which formerly was Scardillo Brothers?

MR. NOTLEY: What is our total contingent liability then, before we start, so we know what it is -- for Dairy World Foods and Faith Farms, the contingent liability, according to these figures. I'm not asking you for the update, just an interpretation of what we've got before us.

MR. MOORE: The total contingent liability would be in the neighbourhood of \$3 million. Of course, it changes, depending on the amount of call on the guaranteed bank loans for inventory and operating capital. But it's roughly in the neighbourhood of \$3 million. That loan in total was approved by Executive Council and made public several months ago by way of an Order in Council. But it does include the Dairy World Foods as well as Faith Farms. That's a new name for a company owned by the same owners of Faith Farms.

MR. CLARK: Mr. Chairman, I think the minister was going to go through and give us an explanation of how we got involved in each of these loans here. To me that becomes virtually the central issue. How did the thing go from \$330,000 to where we are today, you know, from \$330,000 to \$3 million today. If the minister or his officials can give us the justification that they accepted as a reason for increasing the government guarantee in each of these areas, then we can understand the situation somewhat better and decide where we go from here.

MR. MOORE: Mr. Chairman, I've just finished doing that at least twice this morning in a general sort of way. If the hon. members want to ask specifically about each loan that was made since May 10, 1973, direct their questions and we'll try to answer them.

MR. CLARK: Mr. Chairman, on a point of order, that really makes a mockery out of public accounts when a member can ask one question and three supplementaries and there are 9 loans and we can't ask one question and get a breakdown of each of the loans. That really makes a mockery of what we're doing here.

MR. CHAIRMAN: Would you be able to give the reasons for each of these loans? I can see the difficulty of trying to ask them one at a time. If we could have them all. I would think the main reason for each of these loans is what you are asking.

MR. MOORE: Well, Mr. Chairman, I wouldn't want to make any commitment this morning to provide the hon. member with detailed explanations of every instance without knowing -- I think there has to be some responsibility, Mr. Chairman, on members of this committee to ask questions so that we have an idea of what they in fact want to know rather than to just say, give us the files. That's frankly what we've been asked for.

MR. CLARK: I haven't asked for the files at all. Now get off it.

MR. MOORE: . . . (inaudible) . . . accept whatever we bring as an explanation. We can have a one-page explanation for each one or a one-paragraph. The board of directors of the Agricultural Development Corporation have spent several days on this loan on deliberations and their deliberations are contained in the minutes of the meeting. They involve milk producers in the Wetaskiwin area who were shipping to the plant and so on. I'm at a little bit of a loss to know to what extent the hon. member wants information. We brought, I thought, all that he wanted as the result of his questions at the last meeting. But, Mr. Chairman, if it's your wish, we'll try to develop a short summary of each loan and the reasons it was issued.

MR. CHAIRMAN: Is that satisfactory to the committee? Okay, Mr. Clark, your third supplementary.

MR. CLARK: Oh, I'll drop it. Oh, no I won't, Mr. Chairman. I'd like to go back, Mr. Chairman, to the question my colleague, Mr. Mandeville, asked this morning. While we're getting information it would be helpful to get some more and I'll make this very specific so everyone understands it. Would the gentlemen from the Ag. Development Corporation bring back for the next time when they come back to Public Accounts, which will be two weeks from today, I guess, a list of all the agribusiness ventures here that have capital loans with the Alberta Opportunity Company. If I understood Mr. Ordze's comment earlier, he indicated to Mr. Mandeville that in some cases AOC had supplied capital financing and ADC has supplied the operational financing. So my question is, can we have that information for the next meeting?

MR. MOORE: Mr. Chairman, that's no problem. It was me that made the indication that there were joint loans between ADC and AOC. It's no difficulty at all. I would indicate, however, that information of Alberta Opportunity Company loans is public, as well as the Agricultural Development Corporation loans. I don't mind doing the work for you though.

MR. CLARK: While you're so generous, over the Easter recess, perhaps you'd let us know which ones are behind in their payments, too.

MR. MOORE: I'm sorry, Mr. Chairman, but with the Agricultural Development Corporation before Public Accounts, it would not be our intention to bring forward other than the amount of the loan and AOC, which is made public through the Alberta Gazette. If the members wish to call the Alberta Opportunity Company before the committee to get some indication in the arrears in their loans and so on, I would expect that's what they should do.

MR. CHAIRMAN: Agreed. I would think so.

MR. DONNELLY: Mr. Chairman, my question to the minister arises out of C.C. 1657 passed in 1972 and referred to on page 52 of volume 2. It reads: "Where a primary producer who has been loaned money by the corporation dies before the age of 65 years, the corporation may make a grant to his estate in an amount equal to the principal and interest owing to the corporation, the grant to be used solely for the purpose of repaying the estate to the corporation." Now, Mr. Minister, when this happens, what if any negotiating goes on with the primary producer? Or his family -- he's dead, I was just corrected. I'm sorry about that.

MR. MOORE: I was hoping you'd clarify that. There is very little negotiation with the producer.

MR. CHAIRMAN: Just for the record, what is your question specifically, Mr. Donnelly?

MR. DONNELLY: What negotiation is done with the estate, if I can put it that way.

MR. ORDZE: There is no negotiation. We are provided with a death certificate and we determine the outstanding amount, not including arrears, and that is the amount of the grant.

MR. DONNELLY: Are you telling me you just write these off? You don't try to negotiate and obtain your money that you have loaned?

MR. CHAIRMAN: I don't think we heard your answer, Mr. Ordze.

MR. ORDZE: If I understood the question, you want to know if, in the event of death -- you read this O.C. -- do we pay this grant or do we try to negotiate with the estate as to whether or not we should pay it.

MR. DONNELLY: Well, I want to know if you try to get some of the money back, or are you just paying it?

MR. ORDZE: We pay it. It's part of our policy.

MR. MOORE: Mr. Chairman, perhaps an explanation of the situation would help the member to understand. There are three different routes to go with respect to insuring loans. One is by way of insisting that each individual who takes out a loan application has term life insurance with the corporation being the receiver to the extent of this loan. Secondly, for the corporation to buy a blanket insurance policy that covers the life of all those who borrow from the corporation. With respect to agribusiness guarantees or loans if there are some, we generally in most all cases insure that the individual has private life insurance coverage. But with respect to direct farm loans, we've looked at the costs of the three different systems, one of which is the straight grant by the corporation that occurs automatically in the event of death, the second being individual insurance coverage that we insist on as part of our loan contract, and the third, blanket insurance coverage paid for by the corporation and ultimately charged to the loan in some degree or another.

The corporation board of directors and management are presently reviewing the procedure under which we've worked the last four years with a view to the possibility of going to blanket insurance coverage or individual insurance coverage. But quite frankly, the experience of the corporation during the last four years has been that the direct grant procedure is the cheapest way of ensuring loans in the event of death. That's why it has been continued. It has been much cheaper than buying blanket insurance and much less costly than the costs that might be passed on to individuals who are required to buy individual insurance.

There is no effort made to collect. It's the policy of the corporation that if an individual dies, a grant will be provided to cover the loan.

MR. STEWART: Mr. Chairman, I'd like the minister to explain, on the agribusiness loans, Diamond-V Ranch Limited started out with an approved loan of \$1,600,000 with a mortgage for 15 years. I'd like an explanation. Is this a land purchase, a new operation? What security do we have on that loan?

MR. CHAIRMAN: Which loan is it, Mr. Stewart?

MR. STEWART: Diamond-V Ranch Limited in the agribusiness loans on page 3.

MR. CHAIRMAN: Which loan is it, Mr. Stewart?

MR. STEWART: Diamond-V Ranch Limited, High River, cattle ranch.

MR. CHAIRMAN: Diamond-V Ranch Limited, High River? He wants an explanation of that loan under Diamond-V Ranch Limited, page 3.

MR. ORDZE: We have first mortgage security on this loan.

MR. STEWART: What was the nature of the loan? Was it a land purchase, a new operation or what?

MR. LAWRENCE: Mr. Chairman, you're taking us back a little way here again. Primarily it was a cattle operation with land involved, so our total involvement was with land and cattle. Our major security would be land with lots of extra security. As I remember this account fairly well, there was lots of land security. We would possibly have taken the cattle as a second security, but our land would be sufficient.

MR. STEWART: In view of the fact that it's a new operation as I understand it, this isn't an extension of credit to an existing operation?

MR. MOORE: Mr. Chairman, my recollection is, although we should check it and bring it back next week, that it was an existing operation that had financial problems, but the loan guarantee was not made for the purposes of purchasing land. The land was already in existence. The loan was made to assist with the operation, with the land that was already there being used as security. But we could provide some additional information with respect to whether or not there was any involvement in land purchases, if that's what the member wants.

MR. CHAIRMAN: The information will be brought back next week, Mr. Stewart.

MR. MANDEVILLE: Mr. Chairman, on the farm home program that was worked out between the ADC and the Alberta mortgage corporation, could the minister indicate what input the ADC has into the farm home program as far as building farm homes?

MR. MOORE: Yes, Mr. Chairman. Basically, the Agricultural Development Corporation is involved because of the fact that we have a great number of offices as compared with the Alberta Housing Corporation throughout the province where individuals can make application, and secondly, because of the requirement of determining farm income. There was a formula that was developed with respect to averaging farm income over a number of years to determine whether the individual could receive subsidy on the interest rate.

ADC therefore takes the application and determines the level of income of the individual, forwards that to the Alberta Housing Corporation for approval or rejection. Part of the reason that we have not made very many loans under the program during the last two years is that it's really a supplement to Alberta Housing Corporation's regular lending program for house building. There are indeed a great number of individuals who do not qualify for the interest discount because of their income level who go straight to the corporation and obtain funds there for house building.

We've recently had under review, as we did a year ago, the provisions of the farm home lending program, relative to such things as the square footage limitation and the ability of the individual to provide sweat equity for his portion of the capital costs that must be paid, the overall limits with respect to the dollar value of the house and a number of other things that we hoped would improve the program in the manner of the number of people who may apply and qualify for a loan.

MR. MANDEVILLE: Mr. Chairman, one supplementary question. Last year there was \$166,000 in the report and 6 loans given out. The question is, has the program increased? I understand one of the main problems with the program is the fact of determining the gross income which has a big bearing on it. In many cases the farmer with a high input -- their gross income is the same as their expenses. I wonder if the minister was looking at making some changes as far as determining what is gross income to a farmer.

MR. MOORE: That, Mr. Chairman, is not an area that we've had a great of concern expressed about. We're certainly willing to have a look at it, but it isn't one of the areas that we've been considering for change.

MR. MANDEVILLE: My second question is, how many applications are refused, and what are the grounds on which they are refused, if there are applications for farm homes refused?

MR. MOORE: I don't have the information, Mr. Chairman, as to how many are refused. Actually, they are not refused at the ADC level, rather at Alberta Housing Corporation level, when they get to the Alberta Housing Corporation offices. About all we could tell you is how many people inquired approximately with regard to the farm home lending program and what they did from that point in time -- we have some figures relative to where they obtained financing if they didn't go through the farm home lending program. Once again, I don't have those figures with me and they wouldn't be accurate in terms of the people who were actually turned down by the Alberta Housing Corporation.

MR. COOKSON: Mr. Chairman, I think probably my question has been partially answered, but I would be curious to know whether we provincially are working in co-operation now with DREE in the Department of Regional Economic Expansion, whether we are jointly working with them in terms of funding, and possibly you might indicate some contracts or agreements that have been completed with regard to it if the answer is yes on that issue.

MR. MOORE: Mr. Chairman, we have a specific agreement with the Department of Regional Economic Expansion called the nutritive processing agreement. The two levels of government, federal and provincial, in Alberta made a commitment to provide I believe \$17 million over a period of four years for grants to nutritive processing agribusiness establishments. That process involves a committee comprised of an employee of the Department of Agriculture, Mr. Norm Thompson, and the regional director of the Department of Regional Economic Expansion in Edmonton who jointly assess the feasibility of applications and provide anywhere from perhaps 10 per cent up to 35 per cent of the costs of developing an agribusiness.

The schedule of percentage costs that may be provided by way of grant is based to some extent on the number of employees involved and of course the total capital costs. It has been very successful, Mr. Chairman. As to the total number of loans, I'm not exactly sure what they've been, but we have lent under that program or provided by way of grant in excess of \$3 million since March 10 of 1975.

MR. COOKSON: Someone suggested it's time to adjourn, Mr. Chairman.

MR. McCRAE: I just wanted to say, Chairman, before we adjourn, that the minister has agreed to bring certain information back to us the next time we meet. I was really wondering whether or not we had to have them back. If the committee wants them back, fine. I wonder how many more questions we have today. The information he files next time we meet may or may not trigger some more questions. Rather than have them back, what I wonder is if we don't have a lot more questions it would be perhaps possible to be completed in the next five or ten minutes and we should carry on today and then . . .

MR. CHAIRMAN: I still have six names on my list. Okay, a motion to adjourn then, and the Agricultural Development Corporation will return on April 20.

MR. YOUNG: Mr. Chairman, if I could just ask a question, it seems to me that in view of some of the detailed information being requested, if we need that type of information for any members or any others than what have been identified today, perhaps that could be mentioned now so that the officials would come back and we could cease prolonging the exercise.

MR. CLARK: Speaking to that point, I think I should point out to the hon. member that after the Ag. Development Corporation people had been here the first week I mentioned to them after the committee adjourned that I would be pursuing this whole area of Scardillo Brothers.

MR. YOUNG: Yes, but are there any others? That's my concern.

MR. CHAIRMAN: I think we'll have to take that as we come to it, Mr. Young. The meeting stands adjourned.