

8:32 a.m.

[Mr. White in the chair]

THE CHAIRMAN: Good morning, everyone. This morning we have with us the Hon. Ed Stelmach, Department of Agriculture, Food and Rural Development. Perhaps we could have a motion on the agenda.

MR. DUCHARME: So moved.

THE CHAIRMAN: Mr. Ducharme. Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: It's carried.

The approval of the April 1 minutes. A motion?

AN HON. MEMBER: So moved.

THE CHAIRMAN: Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Carried. My, we're spry this morning.

Mr. Minister, we try wherever possible to restrict our questions to that which is before us, the years '96-97. We do our best to do that. I have to restrain the committee, and if you can restrain yourself from answering under policy areas, it saves consternation. If you'd be so kind as to perhaps introduce your cast of many there, then you will have as long as it takes to give us an overview. I'd appreciate that. And we'll have the Auditor General introduce his staff but perhaps not give an overview.

MR. STELMACH: Sure. Well, thank you, Mr. Chairman. This morning we felt that if we couldn't quite answer all the questions, we'd at least have enough people to overrun you and win the battle. But the reason I've asked my staff to be here this morning is to give you an opportunity to meet face to face those people behind the scenes that are doing an excellent job in the Department of Agriculture, Food and Rural Development and also in the Surface Rights/Land Compensation Board and Agriculture Financial Services Corporation.

I'll start at my right: Mr. Brian Manning, who is CEO of AFSC, Agriculture Financial Services Corporation. The next name is Dave Schurman. Larry Lyseng, Mike Mylod, Les Lyster. Back over here are Dr. Yilma Teklemariam, Ray Bassett, Mr. Barry Mehr, Mr. Les Miller, who is the chairman of the Surface Rights/Land Compensation Board, and of course Mr. Krishnaswamy – just call him Krish; everybody knows him as Krish – also with the Agriculture Financial Services Corporation.

I could begin with my opening remarks, or if you want to introduce them . . . Okay.

MR. VALENTINE: Thank you, Mr. Chairman. With me in the Assembly today are Jim Hug, Assistant Auditor General, on my left and Kathleen Gora and Lawrence Taylor, who are both principals in the office, on my right. In the gallery are seven members of my staff who are involved in the audit of the Ministry of Agriculture, Food and Rural Development. I'm glad they can be with us this morning.

Thank you.

THE CHAIRMAN: Mr. Minister.

MR. STELMACH: Well, thank you, Mr. Chairman. Approximately a month ago I appeared before the Committee of Supply to present the ministry's '98-99 estimates, and at that time I said I was a rookie minister. Well, certainly this is my first appearance before the Standing Committee on Public Accounts, so I can legitimately say that I appear before you this morning as a rookie. Please keep that in mind as you're asking questions later.

I would like to take a few minutes of your committee's time to briefly review the ministry's activities for the years 1996-97. Because public consultation is a vital activity for this ministry, a number of forums were held to assist the ministry in generating and providing clear direction on client needs and expectations. For example, consultations were held to determine the design of the Alberta environmentally sustainable agriculture program, to gather input on beginning farmer program changes, to gather input for crop insurance program changes, to measure awareness, use, and satisfaction of the regional advisory services, and of course others, including regulatory reviews.

During the '96-97 year the ministry privatized or outsourced in a number of areas. Seventeen out of 32 grazing reserves had cattle management agreements in place which transferred cattle management responsibility to patron associations. The agroforestry program was transferred to private delivery, allowing the continued sale and distribution of shelterbelt trees. Private industry was contracted to provide software and hardware support, together with troubleshooting, to staff throughout the province, which freed up staff resources for reassignment in research and development programs. The privatization of Alberta irrigation management, otherwise known as AIM, was also initiated.

The ministry is committed to working in partnership with industry. One initiative that strongly reflected this partnership was the new Agriculture Value Added Corporation, otherwise known as AVAC, an initiative that complements the province's overall strategy on research and economic development. This initiative also complements the development of value-added process products in consort with industry and the Food Processing Development Centre at Leduc, where over 90 new products were developed for Alberta processors.

Strategic alliances were formed with commercial lending institutions to access capital for value-added initiatives in the agriculture industry. Partnerships emerged in other areas as well with the launching of a public awareness program called Growing Alberta. This joint government/industry funded initiative is expected to increase the awareness of urban Albertans of the positive effects of the agrifood industry in Alberta's economy, environment, and quality of life.

Based on stakeholder consultations, a new Alberta environmentally sustainable program, sometimes referred to as AESA, was developed to replace Canada-Alberta environmentally sustainable agriculture. This new program will allow industry and government to continue to find ways to make Alberta's agrifood industry more environmentally sustainable.

Of course, we had the transfer of the operational responsibility of the central milk testing laboratory to the private sector.

The year 1996-97 was a financially successful year of operation for the department and for the Agriculture Financial Services Corporation, AFSC. The highlight of '96-97 was that the corporation operated with a substantially lower contribution from the province than budgeted. The provincial contribution for '96-97 was \$143 million against the budgeted contribution of \$190 million, a reduction of \$47 million, or 25 percent, of the budgeted amount. It was this surplus of \$47 million that allowed the department to implement and provide a onetime-only grant of \$35 million to the Agriculture Value Added Corporation. The surplus also allowed the

department to contribute \$2.5 million of its '97-98 funding commitments for the irrigation rehabilitation and expansion program, \$2 million to implement the Alberta agriculture environmentally sustainable program, and \$.5 million for launching of the Growing Alberta initiative.

The AFSC also recorded a surplus of \$72 million for the year. A significant drop in insurance claims due to better weather conditions, lower interest rates on borrowing, and sustained improvement in the management of the loans and properties portfolio contributed to the surplus.

The revenue protection program was wound up with a surplus of \$64 million. The farmers' share of \$16 million, the provincial government's share of \$21 million, and the federal government's share of \$27 million of the surplus were paid out. The commercial loans division of AFSC facilitated \$80 million of new investment while using only \$5 million of Agriculture Financial Services Corporation funds.

Under the farm income disaster program, sometimes referred to as FIDP, more than \$63 million was paid to nearly 5,000 claimants whose farm margins dropped below 70 percent of their farm's previous three-year average. In lending operations more than 600 loans for \$55 million were made to beginning farmers; 98.3 percent of beginning farmer customers are current in their loan payments.

In addition, the AFSC improved the way it delivers programs to cater to the needs of customers. Based on feedback from farmers, the AFSC launched new-look crop insurance in 1997. The new program provides greater flexibility at a significantly lower premium. On an average, producers' premiums dropped by about 25 percent. In 1996-97 AFSC extended the point of sale transaction program to the entire province. The program allowed AFSC's district staff to provide the statement of coverage and premium at the time of the farmer visiting the office. The automated proposal system was added to allow farmers to examine the impact that different crops, locations, and elections would have on costs. Thus farmers could negotiate their entire crop insurance and get their information printed in only one visit instead of the several weeks turnaround with the previous system.

8:42

Mr. Chairman, I'd like to conclude my remarks by repeating what I stated in the '96-97 ministry annual report. That is, reviewing the past helps in planning for the future. The ministry is proud of its past achievements and looks forward to a strong future in its partnership with the industry. In the event that we run out of time and any questions remain unanswered, we certainly will get back to you and provide a written response.

Just before I close, I'd like to say one thing with respect to the AFRD budget and AFSC. The best way to describe the relationship would be: one computer screen would be AFRD, Agriculture, Food and Rural Development; then within that large screen would be a smaller screen which is AFSC. So if one screen grows, it puts pressure on the other because you have X amount of money, and if AFSC doesn't use the amount of money that's budgeted, there's some flexibility in the two working together. But we've managed, between the Crown corporation and our department, to work very closely together, and the result is that some of the savings provide improved services to the farmers of the province of Alberta.

Thank you, Mr. Chairman.

THE CHAIRMAN: Thank you, Mr. Minister. We have an informal gauge here, a performance measurement standard, that relates to the number of people the minister brings. In the ministerial sweepstakes – I think I can speak for the committee – he's so far the winner. And the response of the Auditor General with his staff here and up above

– I think you win hands down, sir.

MR. STELMACH: Great. What's the prize?

THE CHAIRMAN: We'll be a little less hard on you next time you come back.

DR. PANNU: Another warm invitation, I guess.

THE CHAIRMAN: Yes, that's right.

To start off the questioning, sir, this morning we have Mr. Zwozdesky, followed by Mrs. O'Neill and Ms Blakeman.

MR. ZWOZDESKY: Good morning, hon. minister, to you and all of your staff. And to the Auditor General, welcome back; it's nice to see you and your staff as well. Yes, it is very impressive to see all the support the minister has there in the department, because there are actually a lot of good things that happen in that department, and I've done some checking into that, in particular in the agrifood area. So I wish the minister and his staff well as they expand in what is probably one of Alberta's staple economic factors, that being food, agriculture, and rural development. It is, after all, one of our renewable resource areas, and good luck with that, hon. minister.

I want to ask a couple of questions with respect to the FIDP program, which is referenced in the Auditor General's annual report on page 63. It's recommendation 8 respecting the fact that FIDP is a necessary program to help out those farmers who experience difficulties through no fault of their own. My question is: what response have you worked out, hon. minister, with respect to assessing the effectiveness of the FIDP program as requested by the Auditor General in his report? Are there now some measurable performance factors that you're aspiring to? We note that there was a deficiency in the provision of measurable performances when the program started in terms of the evaluation and reporting of that program. So, one, what is your response to the recommendation, and secondly, why were no measurable performance indicators given before?

MR. STELMACH: We are aggressively pursuing performance measures and criteria. In fact, if I remember correctly, we have a former employee of the Auditor General's office that is helping us on a consulting basis to develop the criteria, and I'd ask Dave to just tell us how far advanced we are. But without a doubt, this is one area where it's not that easy to develop the criteria measurement, because the program itself had to be first brought forward in Geneva to the World Trade Organization to make sure it's GATT friendly. We met all those measurements on criteria, and the program itself, certainly in my view and opinion, has responded well, especially in those areas. The departments have experienced some tremendously poor weather conditions.

I'll ask Dave to just fill in.

MR. SCHURMAN: What we've put in place is what we said we would put in place at the outset of the program. When we first established FIDP before the 1995 tax year, the plan always was to have an evaluation at the end of the three-year pilot project. So at the end of payment for 1997's claims, we will actually have a full evaluation that will be available about January of 1999. The issue that I think the Auditor General was talking about was more related to: what were the specific criteria that we're going to try to measure during the evaluation? We hadn't fleshed all of that out at the beginning of the program because it was a new program and it was really quite difficult to estimate what the measures should be for that program. Where the issues are difficult are in mixed farms.

Because FIDP is a whole farm program – it covers the income from all sources, whether it be cattle or whether it be grains or combinations of both – it's difficult to estimate in advance what kinds of payments will come out of that. Quite often if the grain side happens to be on the downside, the cattle side might be on an up cycle, and one would offset the other and there wouldn't necessarily be any claims. So those are the areas that it's difficult to establish criteria for.

We now have actually put in place a steering committee for FIDP, and we agreed to an evaluation process. In fact, I think probably today or tomorrow we will be starting to do the consultations with people who have received payments out of FIDP. These will be individual interviews to see exactly how the program was able to help those people in a time when their gross margins or their margins for purposes of the program went down by 30 percent or more. So we're actually in the process right now of doing some surveys based on the '95 and '96 tax years. The evaluation criteria will be: how does it benefit the farmer in those kinds of situations, and also is it still GATT green? Does it meet the World Trade Organization's criteria, and are we pretty reasonably assured that we won't have any countervail kinds of actions by the U.S. or any other trading partners Canada has?

So we are in the process of actually starting our evaluation, and we will complete that by fall. The public part or the part where we're surveying customers is happening now. The other issues will be handled over the summer, and the reports will be available in the fall for evaluation purposes.

MR. ZWOZDESKY: Thank you.

Another question on another topic, hon. minister. And could I, through the chair, please apologize to the committee? I have to leave for another meeting shortly, so I may have to pursue some of this with the hon. minister later under different circumstances in a different location.

Nonetheless, I'm curious to know – with reference to your opening comments, you indicated that there were loans to beginning farmers, that there was a grant of \$35 million to agrifood. Now, I don't know if you're referencing the year that's under the microscope in those figures. You are? Okay; then I'll proceed. Then I notice on page 51 of volume 2, program 7.0.1, lending assistance in the amount of \$25 million. I guess what becomes curious to me, hon. minister, is: where do we draw the line between being in the business of being in business as a government and simply providing other funds through grants or research moneys or whatever so as not to contravene the legislation we have in this province which prevents the government from actually offering loans or loan guarantees or the like? How do you square those two in your mind? Could you provide some explanation?

8:52

MR. STELMACH: Sure.

THE CHAIRMAN: Mr. Minister, I leave this to your judgment now. Does this go into the current policy area?

MR. ZWOZDESKY: I've clarified with the minister just now. Perhaps you missed it, hon. chairman.

THE CHAIRMAN: Okay. Well, I heard it, but it's fairly broad. It deals with that history. I'll leave it between you and the minister. If you feel comfortable and the minister feels comfortable, then I guess we're . . .

MR. ZWOZDESKY: Well, the act was brought in during this time,

so it was there, and the numbers he referenced are for '96-97. What difficulty does the chair have with that?

THE CHAIRMAN: My difficulty was, I guess, that it carries on to . . . It's asked in a philosophical manner, but it deals with the history and how the judgments were made at that point, how the money was expended. I suppose if the minister is fine with it, we can go from there.

MR. STELMACH: Well, first of all . . .

MR. ZWOZDESKY: We both grew up on a farm, so we both understand this. Carry on, hon. minister, if you would.

MR. STELMACH: Any of the transfers and of course the expenses shown here are all done according to the legislation we have to work under. Nothing is done inappropriately at all.

The question was whether through the Agriculture Financial Services Corporation we are in the business of, you could say, banking or insurance that could be offered by someone else in the private sector. With respect to crop insurance, I don't know of any one jurisdiction in the world that offers crop insurance without government participation. I don't know. Do you know of any, Brian? There isn't. We've researched everything. In fact, we do have some good news – of course it wasn't in '96-97, but it will be coming in '97-98 – in terms of seeking some reinsurance from the private sector, but that's not in the books here. So in crop insurance the taxpayer will stay involved.

With respect to lending, these programs were developed a number of years ago. We made some adjustments to lowering of the interest rates, et cetera. But we were at that time a lender of last resort when young people wanting to get into farming, where it required a tremendous amount of capital, would go to the chartered banks and would be refused. In fact, at one time that was the criteria: you had to be refused by a chartered bank; then you could come to our offices and apply for a loan. The program has been, I believe, tremendously successful. It's put a number of young people back into agriculture, able to purchase land and equipment. If you look at our repayment performance, I would put that performance against any chartered bank in the province of Alberta. In fact, I would say we're better. So we run a very tight operation. There are none of these loan write-offs that we keep hearing about. They're certainly not in this organization, and it's provided a valuable service.

Another issue I want to cover is that when we run into problems, weather related problems especially, and chartered banks get itchy, they tend to move in pretty quickly and call in operating loans in agriculture and put tremendous pressure on farmers that may have experienced some difficulties in one or two years of operation, like we have in Athabasca and the Peace River area. We've certainly seen tons of evidence in the last couple of years. So not to be critical of the operations of the chartered banks, I think this provides another choice for farmers. Quite frankly, we've done very well, and I see no reason why we won't be continuing the program well into the future.

Now, with respect to AVAC, I think you asked a question.

MR. ZWOZDESKY: Yes. The \$35 million grant.

MR. STELMACH: What happened there is that we know biotechnology in agriculture is rapidly increasing. In fact, this is one area where we're critically short of human resources, in the area of research. But we also wanted to set up an organization that can stretch the imagination, look at products other than traditional food products coming from agricultural production. Many say that by the

year 2010, 50 percent of our agricultural production will be for nonfood use. To give you an example, something like canola oil is now used in the bumper guards on B.C. ferries. It's a biodegradable marine oil. If the guard should break, you get a spill into the ocean; the fish swallow canola oil. I mean, you can even flavour it if you want.

Another example is a lubricant in saw guides. Many of the forestry businesses that are operating use canola oil now. You can get canola grease. That's just one example. Fractioning of oats. I mean, there are tremendous opportunities. Pharmaceutical and nutraceutical. We're going to stretch the imagination. This particular organization is going to be self-sustaining. They're going to lever dollars from the private sector. We are the only province that's using that type of strategy, where others have maybe put this money, which is surpluses that in some respect were driven because of better weather, growing conditions, et cetera, and we didn't pay out all the crop insurance, and also some surpluses coming from a variety of farm support programs that Alberta farmers enjoyed earlier that were collapsed in '93-94, I guess – this money was invested in that corporation. It's arm's length. I think board members have extreme integrity and honesty and are also visionary and are attracting investment in biotechnology from around the world, quite frankly. It's also a not-for-profit organization. Everything goes back into the corporation.

MR. CHAIRMAN: Thank you, Mr. Minister, for those very full answers.

Now we have Mrs. O'Neill, Ms Blakeman, and Mr. Ducharme.

MRS. O'NEILL: Thank you, Mr. Chairman, and welcome, Mr. Minister and staff and Auditor General and staff too. Having allowed Mr. Zwozdesky his third question, he has taken my question with regard to AVAC. So I would ask the minister if he could just highlight again – I know that \$35 million was a onetime grant given for this private not-for-profit organization. I wondered if it is in the purview of today's discussion if you could explain to us sort of what has happened or how the financial connection is still there with the department?

MR. STELMACH: Well, although it's arm's length, we have a very sound agreement that I believe was signed by the previous minister in 1996, if I remember correctly. But as I mentioned before, it's a not-for-profit corporation: lever research opportunities create a fund that will attract some of the best minds around the world to this province to be involved in research, partnered with other research institutions, including universities around the world. Not necessarily does all the research have to be done right here, but partnered with various parts of research. I'll give you an example, and again I go back to the Cinderella crop, canola. There was a proposal to do research through AARI in Edmonton, also the University of Saskatchewan and one of the universities in the United Kingdom, because different universities have various skills and you pool these together through modern technology. As a result, we all benefit from it.

9:02

To just kind of capture where we come from, AVAC started in March of 1997. We provided two full-time staff members for three months to help set up the board of directors. They developed a draft business plan, and the chairman, Mr. Ian Strang, and the board undertook an extensive development process for the vision of the new corporation. The president and CEO was hired. His name is Mr. Bruce Healy, well known to investment circles and also to the research community around the province of Alberta and actually

western Canada. We've developed a due diligence process to ensure that this money is spent wisely and that it will be levered to maintain at least the \$35 million in that fund. I believe we've set up a very good program to do that and have attracted a number of interested parties to invest and buy membership in AVAC. The official launch took place on Monday morning here in Edmonton and Monday afternoon in Calgary and attracted between the two places a couple of hundred people, mostly investors and people involved in research.

I'm really looking forward to good things coming out of this organization. Like I say, to my knowledge it's the only such strategy that's been implemented, in western Canada at least.

MRS. O'NEILL: Thank you.

My other question is with regard to how it co-ordinates its research with the Alberta Research Council and in particular with yours. How does it fit?

MR. STELMACH: Good question. When you have the Alberta Research Council and you have the Alberta Agricultural Research Institute, some may tend to believe that there may be stovepiping and additional administrative costs, et cetera. One of the goals of the organization, of course, is to work co-operatively, very closely with the three organizations, to ensure that we're not duplicating research. They're coming up with new measurements to ensure that there isn't any duplication. I know that one of the first things they're doing is introducing a new strategy where they review all the research projects that are coming forward. It's involving new technology.

Yilma, do you maybe want to cover in terms of how you're partnered with AVAC?

DR. TEKLEMARIAM: Yes, I'll be happy to do that, Mr. Minister. They have been in contact with the Alberta Agricultural Research Institute and obviously with the Alberta Research Council as well and the Alberta Science and Research Authority. So what's emerging is really a strong, co-ordinating network of support and assistance for expanding the value-added sector but using the traditional knowledge base and the research capability that exists in the universities and in existing government agencies.

If I may just expand a little bit on what AVAC plans to do. When we look at agricultural commodities, let's take wheat. Wheat is really a bundle of commodities. We've only looked at it as a source of bread and for its protein content, but wheat has starch, it has protein, it has fibre that could be extracted from it, and it could be mined to expand our economic activity in a whole range of areas. The canola oil aspect is one. Beta gluten from barley and oats is another. The whole idea of using agriculture as a source of raw material for paper and pulp from straw all the way to lubricants and health foods and functional foods – so the way we look at agriculture is going to change in the next 10 years. AVAC would give us the capability to do that in relationship with what we have built up to support primary agriculture, as with our other science and research efforts.

MR. STELMACH: I'll add further to that, hon. member, and that is that many times we hear about all the research that's done in the province of Alberta. You can do all the research in the world, but you also have to apply that technology. You have to transfer that technology to the user, to the farmer. The Alberta Agricultural Research Institute area has been tremendously successful. They have a number of programs that allow this to happen: Farming for the Future and many of the farm research projects.

If you look at one area that we're particularly proud of – just one – it's soil conservation. Many of the projects undertaken by farmers that have co-operated with AARI and set up demonstration plots, et

cetera, have been able to demonstrate firsthand to other farmers in their communities that this is the benefit of zero till, reduced till, et cetera, in saving our topsoil. That's one good example of how AARI would be different from AVAC. AVAC pretty well is in the commercialization of many of the new technologies that are coming forward. We still need to be able to transfer the technology.

The Leduc food processing centre is another win/win situation that has spun off many new products. It's pretty well just a huge kitchen that does some production runs if anybody has a new idea. You might have an idea about your own soup or cinnamon buns. I mean, we have just numerous success stories in the province of Alberta. It's really like an incubator. People get to a certain point where, of course, the kitchen cannot supply enough or can't produce enough, and then they just go off and build their own facilities. They test the market; they test the product. You know, here we are in the province of Alberta making sandwiches in Sherwood Park through technology developed at AARI, and we're selling them in Japan. We're going to do more of it. I suspect that in the very near future we'll even be shipping Bento lunches to Japan from Alberta, and it's all due to technology. Research that's really come forward and generated tons of profit for Alberta producers is the modified atmospheric packaging which allows us to keep this food fresh for 35 days of shelf life.

MS BLAKEMAN: Welcome to the minister and his staff. Welcome again to the Auditor General and his staff and the others joining us in the gallery.

I'd like a free question, if I could. It's just a point of clarification. I'm sorry; what does AVAC stand for?

MR. STELMACH: It's the Agriculture Value Added Corporation.

MS BLAKEMAN: Thanks. There's an awful lot of initials in this department.

MR. STELMACH: Oh, yes, between AFSC and AVAC. In fact, I'll give you a list of the abbreviations. It's about a foot long.

[Mr. Lougheed in the chair]

MS BLAKEMAN: A glossary would be great. Thanks.

Okay. The questions I have this morning are around the policies and procedures that are in place for the internal audits performed by the Agriculture Financial Services Corporation. What I'm interested in is: what were the recommendations that were made in the internal audits to the board of directors during the '96-97 year? What steps were taken as a result of that to respond to the recommendations from the audit?

MR. STELMACH: Brian.

MR. MANNING: Brian Manning can do that, Mr. Minister. The report itself from the Auditor General looked at – first of all, within AFSC, the Agriculture Financial Services Corporation, we have an internal audit function. There are four staff that comprise that component. The recommendation itself was to look at how we conduct our internal audit reviews within the corporation. Just to back up a little bit, in 1994 two Crown corporations, the Hail and Crop Insurance Corporation and ADC, merged, Hail and Crop Insurance being the insurance side of the corporation and ADC being the lending side. After that merger, internal audit focused on making sure that internal procedures, policies, and the amalgamation, if you will, came together and policies were adhered to on a consistent basis. Some of those policies, though, got right down to the detail

level of the expense accounts, looking at a district office within a particular region and how it conducted selling crop insurance or conducting a beginning farmer loan.

9:12

That was appropriate for the first year or two, in my view, with the amalgamation, to make sure that things internally are functioning within our existing policy, but after a couple of years from the merger itself – and I agree with the Auditor General's report – we don't need to focus on the minute detail anymore on that merger. As president of the corporation what I'm expecting from internal audit is to look at high-level policies to make sure we're consistent at that level rather than on minute detail. The analogy I use is that I don't need to know if my finger is cut – eventually I'll determine that and put a bandage on – but what I need to know from a senior management perspective is if I'm hemorrhaging in a certain area, whether it be FIDP crop insurance, the beginning farmer program, or any of the other core programs we administer.

So with internal audit that's going to be the focus, to look at some of our business functions at a higher level, get reports back to the board of directors, the audit committee, and myself on a more timely level and, again, look at it from a perspective that if there's a major discrepancy in one of our policies for our businesses, report that to me on a more timely basis. You can appreciate that as we got down to the finite detail, that took a long time to get back to the board, the audit committee, and myself, and we want to turn those recommendations back to us on a more timely basis.

With internal audit, as the minister mentioned in his opening comments, we have engaged an outside consultant to look at our processes to date to provide recommendations to the board audit committee. In fact, we'll be reviewing our next year's audit plan with the board audit committee next week.

The consultant, again as the minister mentioned, was previously an employee with the Auditor General's office and so brings that kind of discipline to our critical review. One of the parts of his contract, too, was to provide a training function, to change our focus that we've had to date with an internal audit of moving away from the internal detail to a more high-level overview here. So that training function is ongoing. He's going to be working with us to put this year's internal audit plan in place.

I mentioned that we have four individuals within that section of the corporation. At the moment there is one vacancy. There will be another retirement coming within the next few months, and that gives us an opportunity from a staffing perspective to bring in some new outside expertise in internal audit functions that we haven't had to date. So it dovetails quite nicely with our internal review.

MS BLAKEMAN: Mr. Chairman, my second question. You mentioned the delays in receiving the internal audits. I'm wondering what caused the delays, if you can talk about that. You've talked a bit about the usefulness of the reports back, but I'm trying to find out whether what I read the Auditor General as saying, the appropriateness of the processes and controls – or is that what you've already talked to me about? So one is the delays in the reports. Why was that happening?

MR. MANNING: Again, when we merged the two Crowns, we now have an organization with 50 offices, including regional offices. So internal audit over the course of a couple of years went through all five regions, all our district offices, as I mentioned, to make sure of the implementation of policies on a consistent basis. The physical geography of just getting around and conducting their reviews with all those field offices, besides the two headquarters being in Lacombe on our insurance side and Camrose on the lending side,

took time. Again, when you got down to looking at a lot of detail in each of those offices, that was a major task.

Personally I felt it was appropriate with the merger at the start, but I think we've gone through that process, we've gone through the merger, and it's now time to focus on more high-level issues here.

MS BLAKEMAN: Okay. Thanks.

THE ACTING CHAIRMAN: Mr. Ducharme, followed by Dr. Pannu.

MR. DUCHARME: Thank you, Mr. Chairman. Good morning, Mr. Minister. My question relates to the farm income disaster program. The program provides payments to those whose program margin falls below 70 percent of the previous three years' average. How was the 70 percent threshold determined?

MR. STELMACH: The program was designed to be GATT friendly, and one of the things the department had to do was of course run it through and past the World Trade Organization to make sure we didn't initiate as a result of this program any countervail duties from trade partners. There were two ways of doing it. We are talking about the average of three years and 70 percent, or you could have done it by taking five years, taking your high and low, taking those out and looking at the average of the three years. We felt that farmers could be better served by averaging the previous three years' margin and then paying 70 percent of that. But in terms of the discussions that took place at the world trade office, et cetera, I'll just ask Ray to supplement, because it did take a fair amount of resources and energy on our part to ensure that this program was GATT friendly and didn't in the end cost our producers some countervail duty.

Ray.

MR. BASSETT: Yes. Thank you, Mr. Minister. This is actually a process that went on over about a three- or four-year period in a set of discussions we had with the farm organizations with a group called the Safety Net Coalition, which is a group of about 10 or 12 farm organizations that were working with us on the whole review and redesigned the safety net packaging in the department. They gave us a set of criteria of things they felt had to be in a safety net package. One of those criteria was that it had to be GATT green or not attract countervail.

Some of the other criteria were that they felt they could handle normal business risk, and they wanted us to position ourselves to handle unpredictable events, disasters. At that time we were just coming out of the European Union/U.S. trade war on grain, which had driven grain prices to the floor. So they felt that the government should position itself to cover the wrecks and design a low-level safety net. In trying to come up with 70 percent, the GATT agreement was signed about the same time, and it identified that you couldn't go over the 70 percent. As the minister said, there are two different ways to do that: three out of five or the previous three. Again, in consultations with the industry, people felt that because you only apply for this program when you need it, three out of five was quite onerous and that it would be better to go with three. We will have to review this. This is one of the things that will be reviewed when we look at the program this winter.

Then we took it to the U.S. and took it to Europe, to Switzerland and talked with people at the different delegations about what they felt the World Trade Organization meant in designing these criteria for the green box. After that, the federal government, as part of the WTO process, did submit the FIDP as a green box program, and it went unchallenged at the WTO. So if you look at where the 70

percent came from, it was a combination of people: the farm group saying they'll handle the normal business risk, wanting a low-level safety net, the GATT criteria which took us to the 70 percent and some practical realities of what it would cost to vary around that 70 percent cost factor.

9:22

MR. DUCHARME: My supplementary deals with volume 2 of public accounts, on page 51. There was an overexpenditure of a little over \$8.5 million under the wildlife damage program. Could you possibly explain to me what the reasons were for this overexpenditure?

MR. STELMACH: The fall of 1996 was one of the wetter years on record, probably similar to 1973, I believe. We had many acres of unharvested crop, and as a result Alberta wildlife found it to be an excellent feed source. Usually we pay out about an average of \$2 million a year through the wildlife compensation fund, and of course with the unusual amount of crop that was left over winter, that increased substantially. That cost was borne by the province. Of course, this last year we saw a different story because most of the crop was removed. We also strive to be customer oriented, and of all the claims that were made – and it was a large number of claims – our turnaround on that was 24 hours for payment to the farmer. That's another area that we're constantly striving to improve, the quick turnaround.

DR. PANNU: Mr. Minister, I share with you the background of having grown up on a farm, albeit in a very different cultural, economic, and market context. The personal and private knowledge acquired in my youth about agricultural operations is clearly irrelevant in the context here, so I'm trying to learn rapidly now that it's one of my 10 or 12 portfolios. My questions are more in the form of seeking the opportunity to be educated about things.

I was looking at the Auditor General's report, page 62, and I'm curious about the operations related to provincial grazing reserves. Obviously his recommendation or observations have to do with the revolving fund and that there is no need to continue with it. I trust that has since happened. It no longer exists, so you can tell us about that. But particularly since privatization of these operations has been referred to here, I want to know the following things. What are these operations about versus the nature of the activities which are referred to as this? Secondly, what form has privatization taken, and how does it affect the revenues drawn from it?

MR. STELMACH: Thank you. With respect to the comments of the Auditor General on page 62, we've made changes in that area as a result of the Auditor General's recommendations and observations.

First of all, I'd like to say that although there might have been some disagreement on procedure, there was no inappropriate use of public money. The transfers that are referred to were done in accordance with Treasury Board instructions, and sometimes maybe we have to spend a little more time and co-ordinate those two and ensure that we don't run into this problem in the future. At that particular time we also received legal opinions from Alberta Justice. Again, I'm not pointing fingers at lawyers, but in this particular case they were running counter to the opinion of the Auditor General's legal counsel. But we did wind up the revolving fund, as recommended by the Auditor General, and we removed any further legal disagreement over legislative authority for the operation of the fund.

Now, in terms of what the actual privatization meant to the patrons, to the farmers, and where the costs are, I'll ask Les to comment on that, because there are varying rates depending on

where these pastures are.

DR. PANNU: There was a part of the question that had to do with what activities are referred to as grazing operations. What are they? Tell me; I don't know.

MR. STELMACH: Okay. The best way to describe them is that they're community pastures. This is land that was at one time – and some of them still are – held in the name of the Crown. Various farmers in a community will form an organization, and then they allot a number of animal units per farmer to graze on this community pasture. At one time all the administration, et cetera, was done by us, and we felt it was a program administration that could be much better handled by the farmers by forming their own committee and board, the reason being that they're much closer to it and are able to respond to various farmers' needs and pretty well devise and make rules and guidelines for their own operation because sometimes the needs in southern Alberta are different from those in northern Alberta.

Les, do you want to cover the rates?

MR. LYSTER: Thank you, Mr. Minister. There are 32 grazing reserves in the province from deep in the south of Alberta to Fort Vermilion in the north. As the minister said, these reserves were set up to provide grazing for livestock. We're in the process of privatizing the cattle management portion; in other words, the day-to-day grazing of cattle and all the activities involved there. The Crown has retained ownership of the land, so the land has not been sold off, and the Crown also manages the nonagricultural aspects involving this land base including recreational uses, because these reserves were set up as a multi-use land base. Also, industrial uses such as oil and gas, seismic, sand, gravel: these kinds of things continue to be managed by our staff. But over a four-year period, which we launched three years ago, we set out to turn over the cattle management functions and are slowly doing that.

The nature of the arrangement, as the minister referred to, is that each farm group has a grazing association. What we do is sign what we call a management agreement between the grazing association and the minister, and that agreement not only specifies the amount that will be paid to the Crown but also specifies how the facility will be managed. Essentially we charge on the grazing reserves the same rates as are paid for agriculture leases. We also charge a rental on the facilities and, in addition to that, a small amount to cover some of our administrative costs. Then beyond that, each association is required to put aside at least \$3 per animal unit month of grazing, which is to be used for long-term maintenance.

Originally a number of the pastures in northern Alberta were developed using money from the heritage savings trust fund, and that program was completed, phased out, and we wouldn't anticipate any future funding for long-term capital development. So essentially what we've said to the farmer groups' patron associations is that they have to be prepared to fund that maintenance from now on. So we jointly agree with them what maintenance steps will be taken.

9:32

DR. PANNU: Thank you.

Mr. Chairman, my supplementary.

THE ACTING CHAIRMAN: I expect by the time you're done this, you'll qualify for boots or something.

DR. PANNU: I'll be short.

Page 50 of the public accounts is related to grazing reserves, items 4.4.1, 4.4.2. Grazing reserves enhancement as well as grazing

reserves items there both show overexpenditures of almost \$362,000. Would the minister explain why so?

MR. STELMACH: You're on page 50?

DR. PANNU: In my book here. It's 4.4.1 and 4.4.2.

MR. STELMACH: Okay. On grazing reserves, the overexpenditure of \$40,000?

DR. PANNU: Yes.

MR. STELMACH: Okay.

DR. PANNU: The next item is \$322,000.

MR. STELMACH: Okay. That \$40,000 is offset by an underexpenditure in finance, which accepted an administrative transfer from Alberta Public Works for aircraft rental. And 4.4.2 is the grazing reserves enhancement program, which was formerly funded through the Alberta heritage savings trust fund; '96-97 will be the last year of funding for that. Although the operating was overspent by approximately \$322,000, an offsetting underexpenditure of \$362,000 appears in the capital budget. I'll have Les just cover the underexpenditure.

MR. LYSTER: Thank you, Mr. Minister. The minister's correct that we have an overexpenditure in operating and an underexpenditure of a slightly larger amount in the capital area. What happened at the time we set our budgets was that it was not clear to us what the definition of capital items would be and some of the requirements around capitalizing range improvement. Probably most farmers when they do their farm accounting would not capitalize range development. Anyway, in discussions that was the procedure we were requested to follow. So what we did was overexpend operating funds, underexpend capital, and balance that against savings elsewhere in the department. That's essentially it.

DR. PANNU: Thank you.

THE ACTING CHAIRMAN: Mr. Johnson, followed by Ms Blakeman.

MR. JOHNSON: Thank you, Mr. Chairman. Good morning, Mr. Minister and members of the department. My questions will centre around a number of significant overexpenditures by the department which are in volume 2, specifically pages 48 through 53. First, on page 48 irrigation and resource management totals show being overspent by nearly \$5 million, by \$4.955 million, and would appear to be mainly attributable to two separate budgets. The one is conservation and development, reference 2.3.3., of \$2.518 million, and irrigation rehabilitation, reference 2.3.6, of \$2.498 million. Can you, Mr. Minister, detail what these budgets represent and provide the reasons for these seemingly large overexpenditures?

MR. STELMACH: You mentioned 2.3.6, and what was the other one? It was 2.3.3?

MR. JOHNSON: It's 2.3.3; yes.

MR. STELMACH: Okay. This is the area where we did some prepaying. The overexpenditure of \$2.5 million was primarily the result of prepaying '97-98 costs from '96-97 funds, when of course we determined in the department that these funds were available

within the department. In doing so, the '97-98 budget was reduced accordingly. The amount of \$2 million was used to really kick start an Alberta alone environmentally sustainable program, and \$500,000 was a onetime grant to the growing Alberta agriculture and food council, which is doing a fair amount of survey work in promoting agriculture awareness throughout the province.

[Mr. White in the chair]

Now, the next one is 2.3.6, and that's irrigation rehab and expansion. In this particular area we assist irrigation districts in rehabilitating irrigation systems, which will ensure efficient distribution of water to Alberta's irrigation farmers. This also was formerly funded by the Alberta heritage savings trust fund prior to 1995. The overexpenditure was again the result of prepaying some of the '97-98 grants and thus, of course, reducing the '97-98 budget accordingly to make up for that. It's just, I believe, prudent fiscal management to create some stability in that particular area, for rehab.

MR. JOHNSON: Thank you. My first supplementary refers to the next page, item 3.4.5. A very large overexpenditure of \$34,944,000 appears on the next page in 3.4.5, Canada/Alberta agreements on processing and marketing. In fact, no funds appear to have been budgeted for this item. Could the minister please explain the nature of this overexpenditure.

MR. STELMACH: First of all, we should strike out the heading there and put AVAC, Agriculture Value Added Corporation, because that's what it's supposed to be. That's a mistake in the statements there. That is the onetime grant to the Agriculture Value Added Corporation. That's why it looks like there wasn't any funding the year prior, because it is a onetime grant. The heading on there is not correct. If you strike that out and put Agriculture Value Added Corporation, that's what it is. That is the onetime grant I talked about in the opening comments, where we used some surplus dollars to initiate the corporation as a research and technology transfer commercialization strategy.

MR. JOHNSON: Thank you.

THE CHAIRMAN: We have Ms Blakeman and Mr. Klapstein and Dr. Pannu.

MS BLAKEMAN: Thank you. I'm interested in the comments from the Auditor General on pages 68 and 69 of his report around why the revolving fund didn't include \$1.5 million worth of what looks like accrued costs under pension benefits, employee disability plans, vacation pay, and also the improvement costs on the grazing reserves. My specific question is: what steps did the ministry take during this fiscal year of '96-97 to comply with this recommendation to wind the revolving fund down and, more specifically, to include the grazing reserve operation costs in the financial statements of the department instead of under the province's Treasury Department?

MR. STELMACH: I believe all of the recommendations of the Auditor General have been accepted, and we're working towards that. But with respect to revolving funds, because it's an area where it's difficult to find some definition between the three authorities, I'd ask Mike just to answer those questions because, I can assure you, I'm far from an accountant.

Mike.

MR. MYLOD: Good morning. Mike Mylod speaking. Firstly, yes, we had wound down the revolving fund at March 31, 1998, so all the

assets and the liabilities of the revolving fund will be transferred into the general revenue fund, and all the amortization costs that the Auditor General was referring to will now appear in the same set of financial statements. The concern of the Auditor General was that not all of the costs related to those grazing reserves were shown in the revolving fund, so it could be misleading. Now that they all appear in the same set of statements, that concern about misleading information should have been resolved.

9:42

As far as the comments about the pension liability and the vacation pay, in preparing those statements we were following the policies as set by the department of Treasury. All revolving funds and department statements were prepared on that basis. If you looked at the audit reports on other revolving funds and on department funds, same kind of qualification concern, reservation of opinion.

As far as the pension liabilities are concerned, Treasury still has not come to a resolution of that problem. They're still working out how that amount could be allocated to the various departments. Again, the object is to make sure that all costs associated with programs are showing the right set of financial statements so people can see what the costs of these programs are. So that pension liability concern still has to be resolved, but we are working with Treasury and the Auditor General in coming up with a solution to that problem.

On the vacation pay accrual, this year those accruals will appear in the financial statements of the department, so that concern of the Auditor General will have been addressed.

MS BLAKEMAN: Thanks.

THE CHAIRMAN: I must apologize. I messed up the order there a little. It actually is Mr. Yankowsky, Dr. Pannu, Mr. Klapstein.

MR. YANKOWSKY: Good morning, everyone. I have some questions for you regarding the Alberta Agricultural Research Institute. I refer you to page 22 in volume 3 of public accounts. Here we see some pretty significant expenditures totaling about \$10.4 million. I'll just give you a chance to find that. That's page 22 of volume 3.

A major portion of the amount that's indicated there, \$4.5 million, is shown as research grants and administered awards. Now I refer you to schedule 1, shown on page 26, which reflects on these research activities. To help me and maybe the people here to evaluate this institute, I would be interested to know if you could tell us what some of these expenditures represent and to whom some of these grants were paid. Maybe at the same time you could tell us if these research activities are co-ordinated through other research agencies such as the Alberta Research Council.

MR. STELMACH: Good question. As I mentioned before with respect to research, sometimes there is some confusion. When you have the Alberta Research Council, you have the Alberta Agricultural Research Institute and of course the Agriculture Value Added Corporation. From time to time questions have come forward with respect to: is there duplication, and what processes are we following to ensure that there's co-ordination?

One of our best kept secrets in the province of Alberta is the Alberta Agricultural Research Institute. Originally, when it was first incorporated, results showed that for every dollar we invested in research, we got about \$10 back. In 1993 – I believe it was when we did the study with Serecon consultants – for every dollar we put in, we saw at least \$60 back in our economy. Most recently, we further

evaluated the performance in what research has done for agriculture in this province. For every dollar invested, we get back \$78 in the economy. I suspect that as we progress further in this area, we're going to see a much larger generation of return on every dollar invested in research.

Now, the Alberta Agricultural Research Institute. Quite frankly, although we do have the staff that are responsible for the operation of the institute, much of that is included in our AFRD budgets. They don't give all their time to AARI but a portion of their time, and all of our staff have other responsibilities. As a result, we are able to operate the research institute with the lowest administrative costs. Because our administrative costs are low, we've attracted other funds to be administered by the Agricultural Research Institute. Some of these include the beef industry development fund, et cetera.

What happens is that the Alberta Agricultural Research Institute has set up a program that they've followed for many years. They hold annual meetings. Various specific sectors would be invited, whether it be the cattle industry, hog, horse, sheep, or grain sector. It would be a combination of both producers – and there will be some processors there – and of course scientists interested in undertaking some projects. That group is asked to evaluate various proposals and see where we should focus the short dollars that we have in any one given area of research. I believe we funded about 200 different projects through AARI. Following that, to ensure that this money is spent wisely and is focused, there is I guess an analysis, a report on the research that's been done, we meet again with various sectors to evaluate that research.

The institute does work very closely with the Alberta Research Council. We have in the province of Alberta perhaps the only inhalation toxicology lab that I know of, at least in western Canada. I don't know if there's one in eastern Canada. At the Vegreville Environmental Centre we have a huge fermentation lab, and that's used in food processing. So if someone comes forward and wants to do some research in that particular area, then AARI can suggest they do some of that research under the Alberta Research Council.

We also fund – is it \$2.3 million?

DR. TEKLEMARIAM: Two point three million.

MR. STELMACH: Two point three million that goes to the Alberta Research Council to do research. They already own the labs and can use that equipment and have the skills, talents there.

So I think overall it's very well co-ordinated and does bring an excellent return on the dollar invested. Originally all the dollars came from the heritage savings trust fund, and now these are all dollars from the department.

MR. YANKOWSKY: Thank you for that very in-depth answer.

I refer you again to page 22, and here we see both an expenditure and a revenue item as shown under the beef development fund in the amount of some \$1,094,000. I wonder if the minister could provide some clarification to this august assembly as to what is represented in these entries.

MR. STELMACH: Okay. To give a little bit of background, the beef industry development fund is an industry fund managed by a national committee, mostly cattlemen. There are representatives from provinces right across the country. On that particular committee are provincial and federal representatives and of course the industry. We were selected by the national committee to manage the research component of the fund. This is of course a great testament to the good work we're doing at the Alberta Agricultural Research Institute.

9:52

The money you had referred to is the amount allocated to beef research projects out of the national beef industry fund. We're managing this fund on behalf of the beef industry committee, and it shows both as a revenue and also as an expenditure on our accounts.

MR. YANKOWSKY: Okay. Thank you again.

Just a quick question. Does the institute publish the results of their research activities, and where is this information available? Is it publicly available somewhere?

MR. STELMACH: One of the things that the Alberta Agricultural Research Institute does, and again is proving to be very successful, is an annual report, a research report. It's a tremendous compilation of all of the research projects that were done in the province of Alberta. This report is of course made public to those parties that are interested, but they also do have a number of articles that are put in various papers, et cetera. As well, we do have public conferences throughout Alberta that bring in people from various sectors to review and study some of the research that's been done and how, then, we can transfer that research, that technology, over to the user, to the farmer. It's worked out extremely well.

This is just one book, a compilation of all the research, and this is the Trails to 2000 conference proceedings. That's the 1998 Farming for the Future conference. This year it was held in Medicine Hat. It just gives you all of the latest information. I mean, here we have crop losses due to hidden salinity. We can go further: hydrology of small agricultural watersheds. I mean, it's an interesting document. Of course, in agricultural research every product, every commodity – and then of course all of the weather-related research that's also done in the province. They're perhaps the most intense.

THE CHAIRMAN: Perhaps you can supply that document to the hon. member. He'd be most interested. That would be wonderful.

MR. STELMACH: Sure.

THE CHAIRMAN: We do have just enough time to get in our resident farmer. I think he's the only true farmer in the ranks of our committee today.

AN HON. MEMBER: Gentleman farmer.

THE CHAIRMAN: Gentleman farmer. Well, this is a real one.

Mr. Klapstein, would you like to bring us home here, and press the minister to the wall.

MR. KLAPSTEIN: Thank you for your indulgence. I know you're shuffling the list around here, but I think there's been some collusion.

Okay. My question is in regard to the Agricultural Financial Services Corporation income statement on page 12 of volume 3 of the public accounts under the Agricultural Financial Services Corporation's financial statement, note 10, other assets. There was \$4,421,666 of unlisted preferred shares in 1996 but none in 1997. What happened to the investments?

MR. STELMACH: Where are you at?

MR. KLAPSTEIN: Page 12, volume 3 of the public accounts, note 10 to the financial statements.

MR. STELMACH: Okay. This is with respect to \$4.4 million?

MR. KLAPSTEIN: Yes. Preferred shares that disappeared.

MR. STELMACH: The \$4.421 million of unlisted preferred shares consisted of \$4,366,666 of preferred shares and \$55,000 worth which should have been included in property for sale, and that is with respect to Westcan. The investments in that particular area were realized in full, including all of the dividends.

Brian, do you want to add anything further to that?

MR. MANNING: I don't know, Mr. Minister, if I could add anything further.

MR. KLAPSTEIN: Where did the money go to? It's not there the next year.

MR. MANNING: Right. With Westcan we had preferred shares, and as the minister mentioned, they were realized in full. The loan was paid in full, so our arrangement with Westcan terminated at that point.

MR. KLAPSTEIN: Supplementary then. On note 15 there was a contingent liability of \$57 million plus under the Alberta farm development loans program toward loan guarantees to financial institutions. What are the corporation's costs under this guarantee?

MR. STELMACH: Under the Alberta farm development loan program the Agricultural Financial Services Corporation, AFSC, guarantees repayment of principle and interest up to 90 percent of individual loans by any participating financial institution. I'm proud to say that in the last 20 years this program has had over 99 percent of loans repaid without the guarantee being called upon. So we have a good track record there.

THE CHAIRMAN: Well, I think we've come very close to expending the time with the very full and complete answers. I have to apologize to those hon. members that sent me a note. I slipped a disc here and allowed two members of our committee to ask three questions, and they're threatening impeachment. My answer is that I shall be taking classes in counting to three before the next meeting.

I'd just like to thank the minister and those that attended with him and thank the Auditor General and those that attended with him. In two weeks we assume we shall be here, and if that not be the case – well, we'll have to wait and find out, I guess.

On the 22nd of April we have the Hon. Stan Woloshyn scheduled to be here.

Is there any further business? There being none, a motion for adjournment? Mrs. O'Neill. Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Thank you kindly. We stand adjourned.

[The committee adjourned at 10 a.m.]