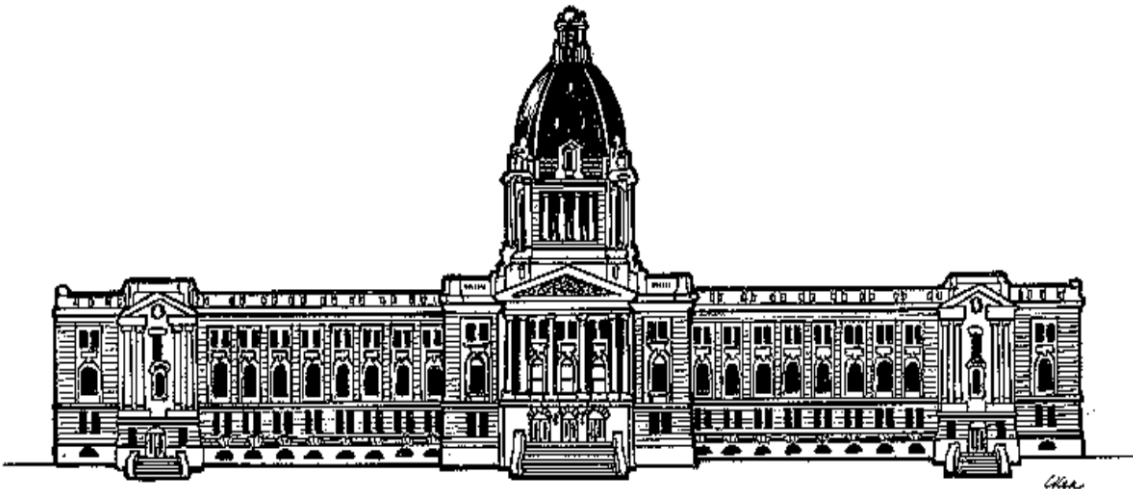




Standing Committee on Crown Corporations

Hansard Verbatim Report

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Legislative Assembly of Saskatchewan

Twenty-fourth Legislature

**STANDING COMMITTEE ON CROWN CORPORATIONS
2003**

Harry Van Mulligen, Chair
Regina Victoria

Pat Atkinson, Vice-Chair
Saskatoon Nutana

Greg Brkich
Arm River

David Forbes
Saskatoon Idylwyld

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Saskatoon Meewasin

Don McMorris
Indian Head-Milestone

Peter Prebble
Saskatoon Greystone

Kim Trew
Regina Coronation Park

Brad Wall
Swift Current

The committee met at 09:42.

(Due to a problem with the recording system, the occasional word during the early part of the meeting is inaudible. This may result in discontinuity of a member's speech.)

The Chair: — Well let's get this meeting started. Before we get at the agenda, just a couple of matters. One, I received a letter from Mr. Wall with respect to an undertaking by the CIC (Crown Investments Corporation of Saskatchewan), Mr. Hart, to provide an update on the status of an arrangement between Sask Water and a group in Chile. And Mr. Wall wrote me to say that we hadn't received any information pursuant to that undertaking and that information is now being tabled today. And thank you, Mr. Wall, for bringing that to our attention.

Secondly, in terms of the agenda, we have tentatively scheduled Sask Crop Insurance here for 10:30, 11 o'clock but that's flexible. We can move that around.

I don't believe that there's any issues that I can . . . we also have tentatively scheduled for this afternoon a review of the reports submitted by the Provincial Auditor and Crown Investments Corporation. We have not scheduled any formal presentation by either the Auditor or CIC in this regard. We have voluminous reports by both parties in this matter and if we do get into this item this afternoon and if we feel that it is necessary to have both make further substantial explanations of what is in those reports, then we can see if we can organize that for tomorrow . . . (inaudible) . . . And I think that's about it.

And the first item on the agenda is the question of the point of privilege raised by Mr. Wall. The committee itself does not deal with privilege issues. Those are matters that are dealt with by the Legislative Assembly but committees can submit a report to the Legislative Assembly outlining where, in its opinion, privilege has been an issue and asking the Legislative Assembly to then take the appropriate action. What we would need if there is to be a report to the Legislative Assembly is a motion before the committee, a motion that can be debated and voted upon. And we'll see where that goes.

Mr. Wall: — Thank you, Mr. Chairman, and members of the committee. I guess our point of privilege, or my point of privilege, could best be stated in the motion itself. And so we have prepared copies for all the members of the committee and with the committee's indulgence I'll read that motion and then we can debate it . . .

I would also say that at some point in the next few days I would like us — preferably today — I'd like the indulgence of the committee members to consider an additional . . . (inaudible) . . . motion and it has to do with Minister Sonntag's recent comments on the Microgro aspect of SPUDCO (Saskatchewan Potato Utility Development Company) and how that may conflict with the information that's on the public record.

So I don't know if we . . . I guess that we should just deal with this and then at some point I could perhaps raise an additional motion for debate. It's relatively new given the fact that we raised it first yesterday as a result of an article in the newspaper. The motion then before us this morning, I'll just read with your

indulgence, Mr. Chairman. I move:

That the Standing Committee on Crown Corporations present a report to the Legislative Assembly that reads as follows:

On June 11, 1997 the minister for Prince Albert Northcote, who was also the minister responsible for Sask Water at the time, appeared before the Standing Committee on Crown Corporations to answer questions about SPUDCO. In response to the member for Kelvington-Wadena's question about the building of storage facilities the minister stated, quote:

The building is a partnership. We have entered into a partnership with a private company to build and develop. Was there a search done in terms of who? The answer is no. It was a business arrangement that was arranged with the company that is now our partner.

Earlier the minister had also stated:

I would want to say that these are business arrangements whereby the risk is shared and certainly the profits will be shared; thereby, you know, we've developed a reasonable rate of return. We're looking at three storage facilities and that process is ongoing.

On February 17, 2003, the Premier released a report entitled the *Deputy Minister's Report to Premier Calvert on SPUDCO*. The facts presented in this report regarding the business arrangements that were in place in June of '97 appear to contradict the minister's statements to this committee.

The report stated:

The characterization of this business relationship as a partnership where government enjoyed a minority interest was inappropriate.

The report further stated:

The relationship with Con-Force was inappropriately portrayed as a relationship where the risks and rewards were shared.

The report also makes it very clear that:

by mid-April (of 1997), key Sask Water officials were aware that the relationship with Con-Force was not an ordinary commercial one where risks and rewards were shared. Crown Investments Corporation and cabinet understood that Sask Water was assuming all of the risk associated with the construction of the storage facilities.

The report singles out the member for Prince Albert Northcote for providing an inappropriate response in an April 28, 1997 letter in which he described the business relationship with Con-Force as a partnership.

SPUDCO has also been discussed in the Crown

Corporations Committee (this committee) on eight separate occasions since July 11, 1997: December 4, '98; June 7, 2001; June 14, 2001; June 21, 2001; December 11, 2001; May 7, 2002; May 14, 2002; and November 28, 2002. Neither this minister nor any other minister or government official made any effort to set the record straight on any of these occasions.

Clearly in order for members to do their work within committees, they must be able to rely on the information provided by witnesses. For any witness, particularly a minister, unknowingly provided . . . to knowingly provide false information is an extremely serious matter — one which must be dealt with as a question of privilege and a contempt of the Legislative Assembly (as defined by *Monpetit & Marleau*).

Since your committee is of the opinion that the contempt may be involved . . .

I beg your pardon.

Since your committee is of the opinion that contempt may be involved, your committee feels that it is its duty to bring this matter to the attention of the House and, accordingly, recommends that this matter be referred to the Standing Committee on Privileges and Elections.

Mr. Chairman, the motion itself is straightforward and I think at this point we should either vote on it or have a discussion, I guess.

Mr. Yates: — . . . Thank you, Mr. Chair.

I would like to, before I start my remarks, make all members of the committee . . . (inaudible) . . . what we can deal with is a very narrow issue and that's what was said before this committee. What was referenced in a report from the deputy minister to the Premier . . . (inaudible) . . . individuals are not a breach of privilege.

The only issue that can be considered as we show privilege is that which was said to us, the committee. Having said that then, I'd like to deal with that issue and I'd like to use your motion as an introduction to that.

You state that on June 11, 1997, the minister from Prince Albert . . . or the member, I should say the member because he's not the minister for the city but the member for Prince Albert Northcote, who was also the minister responsible for Sask Water at the time, appeared before the Standing Committee on Crown Corporations to answer questions about SPUDCO. I agree with that.

In response to the member for Kelvington-Wadena's questions about building the storage facilities, I'd like to read into the record the actual wording of the questions and answers in the context in which they were used.

Mr. Speaker, the line of questioning from Ms. Draude was this. She started out:

Okay. How much money is invested in SPUDCO?

The Hon. Mr. Lautermilch responded:

Basically how it works is Sask Water has arranged the financing, and that is for the three storage facilities . . . (in the) amount of \$7.5 million.

She goes on to ask an additional question:

Okay. Has this . . . the tendering for this, the storage facilities, are they under the terms of the CCTA?

Mr. Lautermilch asked the question, "In terms of the leases?" No, Ms. Draude says, "The building of the storage facilities." So she's asking whether it's covered by the CCTA.

So . . . (inaudible) . . . answer that question. Mr. Lautermilch's response was:

The building is a partnership. We have entered into a partnership with a private company to build and develop. Was there a search done in terms of who? The answer is no. It was a business arrangement that was arranged with the company that is now our partner.

Now it has . . . (inaudible) . . . in context . . . (inaudible) . . . Crown Construction Tendering Agreement was in fact followed and he said no, that they found an individual and entered into a partnership to build. Doesn't say what the nature of that partnership was. Doesn't say anything about the contractual arrangements or anything else.

Now further to that you can say, in your motion:

Earlier the minister also stated:

I . . . want to say that these are business arrangements whereby the risk is shared, and certainly the profits will be shared; thereby, you know, we developed a reasonable rate of return. We're looking at three storage facilities and the process is ongoing.

I agree, Mr. Lautermilch said that. But for the record, the context in which it was said and the response to the question asked had nothing to do with the storage facilities. So you've taken two quotes from two different areas, put them together to portray what can only be considered a misleading quotation.

For the record:

Ms. Draude: — (This question was asked considerably earlier in the process.) Thank you. Mr. Minister, can you tell me how much money the government has invested in SPUDCO as of today?

They're talking about the arrangement between Sask Water and SPUDCO. It has nothing at all to do with the relationship with any of the storage facilities.

Mr. Lautermilch's response:

What we do have is operational costs which is part of Water Corporation and part of the administration.

The only other relationship between Sask Water and SPUDCO. In context to that relationship, he goes on to say:

I would want to say that these are business arrangements whereby the risk is shared, and certainly the profits will be shared; thereby, you know, we've developed a reasonable rate of return.

He goes on to say:

We're looking at three storage facilities, and that process is ongoing.

Those two conversations and those two quotes have nothing to do with one another. They don't have to do with the same operational issues that you link them as being relevant to one another.

And, Mr. Speaker . . . pardon me, Madam Chair . . . Mr. Chair, these two quotes have been taken totally out of context. And only by taking them out of context has the member opposite been able to build his case for contempt — for privilege. The quotes used were not intended — and the official record would indicate — to answer questions that are even relevant to one another. Mr. Speaker, for that reason I have some very, very serious concerns that an issue such as this would be brought forward before the committee, taking out of context two separate quotations dealing with very different issues, linking them together, thereby putting forward motive for impugning the member's intent, when he was just truthfully answering the questions, Mr. Chair.

And for those reasons, Mr. Chair, I don't believe there is an issue of contempt here.

Mr. Wall: — Thank you, Mr. Chairman. That was very interesting. That was quite a flight of fancy, I think, Mr. Chairman, frankly. I mean if . . . I guess what . . . if Mr. Yates is saying that the build . . . that this quote from Mr. Lautermilch, where he answers a question from Ms. Draude at the time where they're clearly talking about the storage facilities . . . It's absolutely what they're talking about.

Her first question:

Okay. Has this . . . the tendering for this, the storage facilities, are they under the terms of the CCTA?

Well of course they're not. We know that now. Your own government hired Ernst & Young to conduct a review to find out what was going on with this mess. Ernst & Young interviews your own government officials and they say, hey, there were three reasons why we didn't tell the people the truth — why we set this up as a partnership when it wasn't. And one of them is to avoid our own CCTA. So, of course the minister's being truthful there. He has successfully avoided his own union tendering policy because of the ruse that this ownership structure of the storage shed was. That's the first point.

Then Mr. Lautermilch asks a subsequent question to clarify what Ms. Draude's talking about. He says, "In terms of the leases?" And Ms. Draude says, "The building of the storage facilities." She clarifies.

And then Mr. Lautermilch says:

The building is a partnership. We have entered into a partnership with a private company to build and develop. Was there a search done in terms of who? The answer is no. It was a business arrangement that was arranged with the company that is now our partner.

If that is not a bona fide example of a member of the cabinet, a minister, testifying before this committee and knowingly misleading the committee, based on what we now know he knew back in June of 1997 . . . back in the spring of 1997, then I don't know what is. I don't know what it would take. To say that these are taken out of context is ridiculous.

You know the minister himself has already said . . . has already apologized. The same thing he told Mr. Sawby in the letter that was specifically mentioned in the Premier's letter is what apparently he's apologized for, in addition for misleading the House.

Because you will remember, when we sent this letter to the chairman of the committees, we also . . . it also became a matter of media interest and the media asked him. Even Mr. Lautermilch admits that he wasn't truthful. At least his indication that he'll apologize when the House resumes would seem to indicate that.

So the question, I guess, to Mr. Yates is this. If he's not talking about the storage sheds in that quote and if he's not talking about the storage sheds in the other quote, "I would want to say that these are business arrangements" — if he's not talking about the arrangement with Con-Force and you know you have an intimate knowledge of what he really meant, of what he was talking about, please share that with members of the committee.

Mr. Yates: — Thank you. I first want to again remind the members that what we're dealing with is not all the other comments that may have been made outside this room or not before the committee, which you continue to reference to, and actions that the minister says he's apologized for. The minister apologized for his actions, but they were not related to the comments made in this committee and that's what we're dealing with before the House . . . before this committee.

Now let me just go over this one more time. And the questions have to be put in sequence and he's in breach of privilege or contempt if, in answering the questions, he would have misled us or lied. Now let me just go through them again in the order, not in the order that you linked two quotes together.

Mr. Chair, the first question asked the minister by Ms. Draude was:

Thank you (and these are direct quotes, thank you). Mr. Minister, can you tell me how much money the government has invested in SPUDCO as of today?

The issue and the question and the answer is a relationship between Sask Water and SPUDCO, not the relationship . . .

That's what the question that was asked so how can you say the answer is not in that context?

Mr. Lautermilch's answer:

What we have is operational costs which is part of Water Corporation (not good English but that's what was said) and part of the administration. I would want to say that these are business arrangements whereby the risk is shared, and certainly the profits will be shared; thereby, you know, we've developed a reasonable rate of return. We're looking at three storage facilities and the process is ongoing.

It goes on and I will read it into the record:

I think the potential . . . and I would want to say to members of the committee that this . . . we don't view this as a long-term involvement. Rather than, we believe . . . there's an opportunity here to develop, and to help to develop, a critical mass. People learning how to grow potatoes, because there is a great potential here, we believe, in Saskatchewan for some economic development opportunities, (and) for . . . jobs in the Lucky Lake-Riverhurst area. And we are working with local businesses and farms to help develop the critical mass that will hopefully attract, ultimately we hope, a French fry plant which will certainly create, and will create, job opportunities for Saskatchewan people.

So basically what we do is we see this as a short-term involvement to help facilitate the expansion of the potato industry in Saskatchewan, and ultimately to see the role of Sask Water in a short term as opposed to the long term.

We were talking about the relationship between Sask Water and SPUDCO and the development of the industry, not dealing with those storage facilities. You then go on . . . I'm going to read all of these quotes again.

The next question asked by Ms. Draude. "How much money is invested in SPUDCO?" This is an investment in SPUDCO by Sask Water. How much money has Sask Water put in SPUDCO? Mr. Lautermilch responds:

Basically how it works is Sask Water has arranged the financing, and that is for the three storage facilities. It's an amount of . . . 7.5 million.

So there the question's about the three storage facilities. No doubt.

The next question is . . . I'll read it right through, it's easier this way:

These buildings will in turn be leased to growers, and the leases will cover the borrowing from the local banks in that area and the leases will cover the costs of the capital to build these. I can say to you that the rate of return that SPUDCO will be receiving will be in the neighbourhood of 10 per cent but the aggregate amount that will come from the local banks is . . . 7.5 million.

Ms. Draude then says:

Okay. Has this . . . the tendering for this, the storage facilities, are they under the terms of CCTA?

That's the next question. Was the tendering for the storage facilities under the CCTA? Mr. Lautermilch responds:

Hon. Mr. Lautermilch: In terms of the leases?

Ms. Draude: The building of the storage facilities.

He answers in the context, are these part of the CCTA?

A Member: — The building of the storage facilities.

Mr. Yates: — In relationship to the CCTA. You cannot, other than the question asked, attribute that there is a different question. So the building of the storage facilities in regard to CCTA.

The building is a partnership. We have entered into a partnership with a private company to build and develop. Was there a search done in terms of who (should do it)? The answer is no. It was a business arrangement that was arranged with a company that is now our partner (in the building).

It doesn't say in the financing; it doesn't say any of that. It doesn't attribute any amount. It doesn't say that there was any financial arrangement. It just says there was a partnership in building it.

Only by attributing another comment that's not dealing with the storage facilities at all can you attribute any type of financial motive or any type of sharing of risk or any of those types of things — two totally unrelated and disconnected comments.

So, Mr. Speaker . . . or Mr. Chair, I again submit that there is no breach of privilege here, that the minister was asked the questions and answered them truthfully.

Now, Mr. Speaker, I am concerned because in the last week to 10 days there have been repeated press releases by the Saskatchewan Party, making allegations that members of the government have misled and deliberately misled the public.

To that end I'd like to read into the record from Regina *Leader-Post*, February 26, 2003, an article from Murray Mandryk:

And last week (direct quote, and last week) the Saskatchewan Party's release on Spudco fell just shy of fabrication. At issue was a quote attributed to Crown Investment Corp. Minister Maynard Sonntag made June 13, 2000 during budget estimates debate. The Saskatchewan Party release quoted Sonntag as saying: "With respect to Con-Force in the construction of the buildings, they were jointly owned. The ownership was Con-Force 51 per cent and ourselves 49 per cent."

Here's what Sonntag actually said according to Hansard (again, as I've quoted in all other cases, according to Hansard): "First of all, with respect to Con-Force in the construction of the buildings, they were jointly owned but they were entirely debt-financed . . . (by) . . . SaskWater, the Spudco division of SaskWater subsequently bought Con-Force out."

Not only did the Opposition completely reconstruct Sonntag's quote, (as they have done in this case again) but it did so to make the point that there needed to be a special legislative investigation of Sonntag for "lying to the Legislature."

That's not just irresponsible. It's contemptible.

That was another case of the Sask Party taking quotes out of context, putting them together, putting out a press release, and calling for a legislative review — case number two. Case number one you brought before us today.

Case number three . . . And we can continue on. We have a matter of the Leader of the Opposition making statements about the new Finance minister, the Hon. Mr. Melenchuk. And in verbatim transcripts of a radio interview with Murray Mandryk and Stefani Langenegger, Dan D'Autremont makes allegations that Mr. Melenchuk ran the Liberal Party hundreds of thousands of dollars into debt, and then can't back them up. Again, attacking a member without fact, quoting things that aren't there, and portraying a picture that's not reasonable.

Mr. Speaker, I think that we have spent sufficient time on this most recent quote. And I think that having looked at the verbatim of the actual minutes of those meetings, that clearly two quotes have again been taken out of context, put together to build a particular position that is not reasonable and is not supported by the facts. And for that reason, I believe we should not proceed with the motion, Mr. Speaker . . . or Mr. Chair.

Mr. Wall: — Mr. Chair, this is precisely why the people of this province are so furious with this government.

It's not even so much the \$28 million lost. I think they've unfortunately become tragically accustomed to that in terms of governments of all stripes losing money in these kinds of ventures. But it's the lying. And then it's the refusal to take any responsibility for the lie.

The minister involved here, the minister involved here clearly misled members of this committee in terms of the nature of the, of the storage sheds — who owned them, who didn't own them. It's clear.

Mr. Yates talks about, well we only can deal with testimony before the committee, Mr. Chairman, when we reference things like Ernst & Young and the deputy minister's report. But it's those instruments and it's those documents — his government's documents — that provide us the information, the knowledge to know that Mr. Lautermilch wasn't telling the truth on this day. That's how we know. That's the evidence. The evidence that Mr. Lautermilch came before a committee of the Legislative Assembly and misled that committee in statements that are clear as the noses on our faces, the evidence is the government documents that we . . . that are now matter of . . . part of the public record.

Mr. Lautermilch in these quotes, whether the question has the word . . . has the initials CCTA in it or not, decides to tell the committee about the nature of these storage sheds — quite proudly at the time, I presume — about how the government of the day, the NDP (New Democratic Party) government of the

day had a partnership, how risk was shared, and how profits would be shared.

And he knew; he knew at the time. He had been briefed by officials. The president of SOCO (Saskatchewan Opportunities Corporation) had waded in; the president of SOCO at the time had waded in. The deputy minister to the premier, Mr. Marchildon, knew. They all knew. Mr. Lautermilch knew that what he was telling the committee that day, and how he characterized the ownership of those potato sheds and the relationship with the partnership, was false. It was not true. And that's what we're dealing with today.

The government, the Premier if you can believe him, says he wants to get to the bottom of this issue. That's what he said when he released the report. Well does he or doesn't he? And do you or don't you? Do members of this committee want to hold accountable those who testify, whether they're Crown corporation officials or ministers of the Crown, or don't they?

What he tells us here is clear. It's not true. It's not true. In any context, on any day, it's not true. And we have the opportunity to hold him to account. I would suggest to you that Mr. Lautermilch has agreed with our position. He's already said he'll apologize to the House when it resumes.

You know a couple of . . . I'm not sure of the date . . . a couple of months ago or a year ago, I'm not sure when it was — January of 2002, sorry — we were having a debate about Information Services Corporation and this, this goes to point if you bear with me, Mr. Chairman. And I made some speculation about ISC (Information Services Corporation of Saskatchewan) at the time. I said, you know, if I . . . I wouldn't be surprised if the Provincial Auditor tells us that ISC is burying their capital costs in . . . I beg your pardon. Putting operating costs into . . . I beg your pardon. Burying capital costs into operating — that was the . . . that's what I speculated.

And then I said, and if I'm not wrong . . . and if I'm not right in that speculation, I'll apologize. And the very next opportunity when the committee met or maybe it was a couple of meetings later, the current member for Nutana, Ms. Atkinson, held me to account. And I apologized. We still obviously believe that the ISC thing is a mess and a debacle, but on point and in terms of the commitment that I gave this committee, I apologized. And the NDP were pretty happy with my apology. They've . . . you know, not that any pictures are particularly flattering but they found a . . . they found, you know, one that was very interesting, put it on their Web site, and Pat Atkinson is quoted . . . I beg your pardon, Ms. Atkinson is quoted in here. It says on your Web site that she was pleased with the apology. Quote, it says:

The people of Saskatchewan expect a credible Official Opposition.

She said, quote:

This apology begins to ensure that Saskatchewan Party members are held accountable for misinformation and for erroneous comments that they continue to make about the government of Saskatchewan.

Fair enough. I think it's still on the Web site. I think . . . No, I think it is. It isn't? Oh. So I guess I'd ask her and her colleagues, in all seriousness, to do the same thing with her own members. To hold them to an account. This was a matter of speculation that was incorrect and an admission of same was given.

This, this, based on the evidence we know, based on government documents that have been released, is a wilful — we would contend this motion suggests — a wilful misleading of a committee of the Legislative Assembly, and a bona fide case for contempt.

I think Mr. Lautermilch has already acknowledged it; he said he'll apologize to the House. We have to go through the process. We have to hold the tradition of this committee and the Assembly as it should be held, upheld . . . upheld, and the way to do that is to support the motion — to find him in contempt.

And if you can sanctimoniously put on a Web site this little beauty, then I'd hope you'd have that same sanctimony and that same sense of what's right at least — maybe that's the better way to put it — to hold Mr. Lautermilch accountable for what he said to this committee of the Legislative Assembly.

Mr. Yates: — Mr. Chair, I want to go over the facts one additional time but I also want to respond to some of the comments made by my colleague opposite.

Mr. Wall continues to reiterate that Mr. Lautermilch has apologized. He has apologized. But you are attributing that apology to him saying that these comments he made were out of context, misleading, and that's not true. You have used the word lying. And I would submit to you, Mr. Wall, that as Mr. Mandryk found on February 26 this year, when the Sask Party put two comments together that were not related, or in fact in this case added a comment to the official record — when they added the comment and I read the quote, I read the article; I read the article in and if you want to read it in again — you take comments out of context, you cut and paste, you attribute two different questions that aren't related to one another to an issue. It's amazing your ability to read minds — amazing your ability to understand when somebody is answering one question they're really meaning to answer another.

The only thing this committee is empowered to deal with, or in fact the legislature, is an issue of relevancy. Under law, people have rights. You can't connect different thoughts and themes and say that they're united and they're moving down in a singular direction, are about a same theme. We can't do that under law in Canada and we can't do that in the legislature.

Now again, I just want to reiterate for members the first question which Mr. Wall takes part of the answer of to attribute to a question that is two questions later, was about the business relationship between Sask Water and SPUDCO — nothing to do with storage sheds. And the question and answer are as follows:

Ms. Draude: — Thank you. Mr. Minister, can you tell me how much money the government has invested in SPUDCO as of today?

The question was about the business relationship between Sask Water and SPUDCO. It's not about the storage facilities. It's about that business relationship. Mr. Lautermilch's response was:

What we do have is operational costs which is part of Water Corporation and part of the administration. I would want to say that these are business arrangements (which you'd expect between two business units, business arrangements) whereby the risk is shared, and certainly the profits will be shared; thereby, you know, we've developed a reasonable rate of return.

That's between SPUDCO and Sask Water. It has nothing to do with the storage potato. And:

We're looking at three storage facilities, and that process is ongoing.

So it's part of SPUDCO. They're looking at three storage facilities, but it's not dealing with any business relationship between SPUDCO and any company to build those storage facilities. It's dealing with the relationship between SPUDCO and Sask Water. And to take part of that quote and add it to a different question later on and a different response, to try to put some context of misinforming or misleading this committee is contemptible. It is contemptible.

And the question of relevancy where you find that you believe the minister has done this — and this was about the Crown Construction Tendering Agreement, not about the relationship between the two . . . financial arrangements between the two, the company building the storage facilities and SPUDCO. And it doesn't talk about any financial arrangements; it talks about a partnership. It doesn't say what that partnership entails, doesn't say anything about the financial arrangements. It simply says the building is a partnership. We have entered into a partnership with a private company to build and develop. That's normal. The government doesn't build its own.

Was there a search done in terms of who did it? The answer is no. It was a business arrangement that was arranged with a company that is now our partner. So they contracted with somebody to build the buildings. What's wrong with that? The question was answered. It doesn't talk about any financial arrangements between the companies or any nature of that.

So you attribute from other comments made elsewhere and an investigation done three and a half years later or four and . . . five and a half years later actually, that there was intent there and that he misled based on something that came five and a half years later.

It's amazing how brilliant you are. If you can put together, you can read minds, you can think of what he was intending to do when you and I weren't even elected to this legislature that day . . . We weren't here. So it's amazing. We didn't see his posture. We didn't see his . . . We only have the same for word-for-word verbatim to go on. We weren't there. So how can we attribute motive that we weren't there, we didn't understand.

There were no further questions to clarify the issue you're

talking about, that you attribute.

Mr. Chair, again I want to go back to the February 26, 2003 article, Murray Mandryk's article, as he investigated one of these similar allegations made by the Saskatchewan Party over the last couple of weeks. Mr. Mandryk is an independent journalist who has looked at this and his quote is:

And last week, the Saskatchewan Party's release on Spudco fell just shy of fabrication. At issue was a quote attributed to Crown Investment Corp. Minister Maynard Sonntag made June 13, 2000 during budget estimates debate. The Saskatchewan Party release quoted Sonntag as saying: "With respect to Con-Force in the construction of the buildings, they were jointly owned. The ownership was Con-Force 51 per cent and ourselves 49 per cent."

The actual quotation — and this is again Mr. Mandryk's words:

Here's what Sonntag actually said according to Hansard (the official record): "First of all, with respect to Con-Force in the construction of the buildings, they were jointly owned but they were entirely debt-financed and SaskWater, the Spudco division of SaskWater subsequently bought Con-Force out."

Not only did the Opposition completely reconstruct Sonntag's quote, but it did so to make the point that there needed to be a special legislative investigation of Sonntag for "lying to the Legislature."

That's not just irresponsible. It's contemptible.

And, Mr. Chair, that is the exact same situation we face today, where separate quotes dealing with separate issues have been put together to mislead, to bring before us a request for an investigation that's not founded by the facts but is founded only if you take separate quotes, put them together, and attribute motive that's not . . . that is clearly not there.

Mr. Chair, I see no need for us to continue dealing with these . . . this issue before the committee. There clearly has not been a breach of privilege. The official record itself and the questions asked and the answers given cannot be attributed together. Only by taking out of context and combining issues that are not related to one another can you come up with what he himself says is in fact the breach. So you take two partial quotes dealing with different issues and connect them. Is that fair to the member? And then you attribute blame.

I think, Mr. Chair, that we have another case, as Mr. Mandryk has quoted in his February 26 article, fabrication.

Thank you, Mr. Chair.

Mr. Wall: — Mr. Chair, I'm just sitting here wondering what the weather is like in the world that member's living in because he's looking at the same quotes that we're all looking at. He's arguably looking at the same quotes that Mr. Lautermilch looked at when he said — after we wrote this letter to the chairman of committees — I'm going to apologize when the House returns to session.

Now in his talk just a few minutes ago here, Mr. Chairman, that member just indicated that there was . . . that if we're hanging our hat on the fact that Mr. Lautermilch said that this was a partnership, we shouldn't be because partnership isn't the wrong way to depict this. Partnership isn't the wrong word here. That's what he just said. We seem to be focusing too much on that word. That's what you just said in your remarks.

Your Premier, your Premier, the leader of your party, in his deputy minister's report that he released, says:

The characterization of this business relationship as a partnership where government enjoyed a minority interest was inappropriate.

The report goes on to say:

The relationship with Con-Force was inappropriately portrayed as a relationship where . . . risk and rewards were shared.

It is then your contention, it is the NDP's contention that what Mr. Lautermilch is talking about here in this quote, where they're talking whether it's about the Crown Construction Tendering Agreement or how are you going to build these storage sheds or not . . . Ms. Draude specifically says the building of the storage facilities.

Where Mr. Lautermilch says, "The building is a partnership. We have entered into a partnership with a private company to build and develop," it's your contention there he's not talking about Con-Force there. Is that your contention? It has to be.

If it's not your contention that he's . . . if it's your contention that he's not talking about Con-Force, then that's the only way you can make this ridiculous argument. Clearly he's talking about the storage sheds — clearly, he is.

Was there a search done in terms of who? (No.) The answer is no. It was a business arrangement that was arranged with the company that is now our partner.

That is now our partner. The contractor was Con-Force. That's a matter of the public record. In the bargain they got 51 per cent of the company for \$51 per shed or however you want to look at it. But the partnership, the Premier says, and his deputy minister says, the partnership was the incorrect way to portray this. It was inappropriate.

The Chair: — Can I just ask you a question? Is that he how portrayed it then in his comments to the committee, that the government enjoyed a minority interest and there was a 51/49 per cent split or that the risk and rewards were shared?

Mr. Wall: — Yes. He says, I would want to say . . .

The Chair: — Did he say that in that particular quote?

Mr. Wall: — He doesn't say that in this particular quote.

The Chair: — . . . where he's asked about the storage buildings?

Mr. Wall: — Mr. Chairman, he uses the word partnership.

The Chair: — No, I just want to ask you . . .

Mr. Wall: — And your Premier, your Premier says, to use the word partnership is inappropriate.

This is absolutely ridiculous. This is a bona fide case . . . Mr. Chairman, I still have the floor, I think, don't I?

The Chair: — Yes . . .

Mr. Wall: — So why don't you get on the . . . you can get on your own speakers list, I assume. Let me just say this to members of the committee. This minister came before this committee and portrayed this as a partnership — that's what he said — where risk and rewards were shared. And now you're telling me . . .

A Member: — No, no, no. He doesn't say that risk . . .

The Chair: — Mr. Wall has the floor.

Mr. Wall: — He says it here. He says it here in this quote when he talks about:

I would want to say that these are business arrangements whereby the risk is shared.

So I guess it's your contention he's not talking about the storage sheds there and the relationship with Con-Force. It has to be. That's your contention . . . (inaudible interjection) . . . Oh, oh hang on now. That is their . . . Well, they can't agree, Mr. Chairman, because they can't get their story straight.

And that's the problem with this. And that's why the people of the province are getting sick and tired of this. It isn't as much the \$28 million that was squandered. It's the lying. You can't even keep track of them. You can't even keep track of your own cover stories.

I would like Mr. Yates to tell the members of the committee then, that when Mr. Lautermilch . . . And I'll ask the questions. We'll put it all in context, Mr. Chairman.

Ms. Draude says:

Okay. Has this . . . the tendering for this, the storage facilities, are they under the terms of the CCTA?

And the Hon. Mr. Lautermilch says:

In terms of the leases?

And Ms. Draude says:

The building of the storage facilities.

Which were done by Con-Force. Right? Con-Force was the contractor and the partner, and the partner as a result of the arrangement — or the so-called partner. Mr. Lautermilch answers the question:

The building is a partnership. We have entered into a partnership with a private company to build and develop. Was there a search done in terms of who? The answer is no. It was a business arrangement that was arranged with the company that is now our partner.

And that part's true because Con-Force of course . . . They were still telling people that Con-Force was their partner. And your Premier, your leader, and your deputy minister to your Premier said a couple of weeks ago, very clearly, the characterization of this business relationship as a partnership where government enjoyed a minority interest was inappropriate.

The relationship with Con-Force — this is a quote from your deputy minister to the Premier's report, one your Premier released the other day:

The relationship with Con-Force was inappropriately portrayed as a relationship where the risks and rewards were shared.

So if it's your position that Eldon Lautermilch that day is talking about something else . . . They're asking . . . They mention specifically storage sheds all through the questions — who built them, how are they built, under what terms were they built — but I guess it's the NDP today saying well, you know, Mr. Lautermilch wasn't talking about the storage sheds at all. He wasn't even talking about Con-Force.

That's your position. It's crazy but that's what it is . . . (inaudible interjection) . . . Well then tell us what it is.

Ms. Atkinson: — Thank you. Well first of all, for the record, I concur wholeheartedly with one part of the member's motion, and that is that we have to be able to rely on information provided by ministers and their officials to this committee in order for us to provide information before the Legislative Assembly.

There's several points I want to make and I think they're important points.

The first point that I want to make is that clearly — and Mr. Wall was talking about this before — that when members of the legislature make mistakes they need to recognize those mistakes and apologize. And I note that Mr. Wall has done that on occasion and I note other members of this committee have done that on occasion. And I note that the Premier apologized to the people of this province when he released the deputy minister's review of SPUDCO. And I note the minister who was responsible for Sask Water at the time apologized.

Today we're looking at, what did Mr. Lautermilch say before this committee. And in order for us to find Mr. Lautermilch in contempt of this committee we have to assure ourselves that Mr. Lautermilch provided this committee with inaccurate information or, to quote the members opposite, misleading information.

As the member from Dewdney has indicated, we have . . . we only have the words that Mr. Lautermilch provided this committee in the context of the questions that were asked of Mr. Lautermilch.

I think the member would have an argument if their line of questioning had been more thorough and Mr. Lautermilch had provided the answers that the committee, that the member opposite is indicating he provided. But their line of questioning was not that thorough. And when you look at the line of questioning I believe that there were one, two, three, four, five questions.

Ms. Draude did not ask Mr. Lautermilch the nature of the partnership. I think that had she asked the question, what is the nature of the partnership when it comes to the storage facilities, and Mr. Lautermilch had indicated the nature of the partnership, the members opposite may have a . . . may have an argument. But when she asked about the storage facilities, Mr. Lautermilch said the building is a partnership. He did not characterize that partnership where he indicated that the government had a minority investment in the partnership. Mr. Lautermilch clearly indicated that the aggregate amount of money that was being spent at the time was \$7.5 million.

Earlier in her questioning, which is part of the opposition's argument, she asked about how much money has the government invested in SPUDCO as of today. And I hear Mr. Wall catapult Mr. Lautermilch's response into the business arrangements where the risk is shared and the profits will be shared, as specifically dealing with the storage sheds. And that is not the case at all.

And, in fact, as we know, there were a number of other interest groups that were involved in this, including people in the Lucky Lake-Riverhurst area, including growers, including private investors. Clearly Mr. Lautermilch was not responding to a question about storage sheds. He did indicate in his answer that we're looking at three storage facilities and that process is ongoing, but he was not speaking specifically about the relationship with the province and Con-Force.

So I believe very clearly that the opposite . . . the members opposite could have an argument had they been more specific in the kinds of questions that they asked, and if Mr. Lautermilch had been more specific in his answers. But we're dealing with some fairly general questions and some fairly general responses.

So I would argue that the members opposite do not have a case that the minister has misled the committee and in order for that case to have been built, they would have had to have been much more focused in the kinds of questions that they tried to elicit answers to from the minister.

And so I think, Mr. Chair, we should vote on this matter. Clearly the committee has the authority to vote on this matter. And we should turn down the motion from the member of the opposition.

And obviously they can take this matter into the House and we can address it there. But I believe, with the information that we have before this committee, the members opposite have not been able to make a case that Mr. Lautermilch knowingly and intentionally misled this committee.

Mr. Yates: — Mr. Chair, I'd like to further deal with some comments by the members opposite in their argument.

The members opposite use the characterization that the Premier accepted responsibility for this, and I agree. And they used a quote, that the characterization of this business relationship as a partnership where government enjoyed a minority interest was inappropriate. And yes, that the Premier fully acknowledged that and the government's fully acknowledged that, but it is not in context to discussions before the Crown Corporations Committee in 1997.

The actual report says it is dealing with a letter to Mr. Sawby. So in a letter to an individual the minister used that characterization. And the report found that was inappropriate. It has nothing to do with what is before the Crown Corporations Committee.

Secondly, you used a second quote contained in the report. Again the government fully acknowledges and the Premier fully accepts it that, the relationship with Con-Force was inappropriately portrayed as a relationship where the risks and rewards were shared.

That portrayal wasn't in this Crown Corporations Committee meeting; it's in other documents. So you can't take things from various places and try to lump it all together to build a case against an individual, what they've said or attribute remarks to them or attribute motive. Because you can't attribute motive to things that are totally disconnected, at different time frames. We can only deal with the actual wording before the committee.

And the actual wording before the committee does not, does not characterize the partnership or relationship in such a way that the government . . . in any way that can be portrayed as misleading.

You can attribute many, many other things from other documents that aren't related to that particular meeting and say, yes. And for that, the overall issue, the minister has apologized and so has the Premier. But on the issue of privilege we can only deal with what's before the committee, what was actually said in 1997. And what he . . . was actually said was not a breach of privilege.

Mr. Wall: — You know, nobody over there has told us then if he's not talking in these quotes specifically about the partnership between SPUDCO and Con-Force, no one's told us what he's talking about.

Without . . . Not having the floor, just in a little sidebar, I think the member from Dewdney said it was . . . he's referring to the partnership between SPUDCO and Sask Water. That's what he said. Well I'm going to let him say it for himself. But that's what I understand he said — so he can clarify that — which is amazing of course because, of course, SPUDCO is a wholly-owned subsidiary of Sask Water, or it was.

You know, at the very best, Mr. Chairman, if you accept the fact that Mr. Lautermilch was not talking about the Con-Force deal in these quotes, which we just patently don't accept . . . It's very obvious we think that he is, but the member for Nutana seems to think he was talking about something else. She also didn't clarify what partnership he was talking about, by the way, and I hope she does that.

But even if you take that on its face, she said in her answer, if you can believe it, that the reason that Mr. Lautermilch didn't fully disclose then or that we might have a case to demonstrate that Mr. Lautermilch wasn't telling the truth but the opposition didn't ask the right questions. They didn't ask the right questions. And so, it's okay to not tell the truth to the people of the province for six years if the opposition doesn't stumble on the right question to ask without the access to any government documents that would lead them in the direction to believe a government would even do such a thing.

Any fair look at these quotes clearly tells you, clearly tells the reader, especially in the light of what we know to be the case today in terms of government documents, that he was portraying this arrangement with Con-Force as a partnership. And that is what your Premier said was inappropriate. Apparently you don't agree. Apparently you don't agree. Because if he misled the Assembly about the nature of the agreement, then he didn't tell the truth to the committee and he should be found in contempt of the committee.

And instead of, if we were going to worry about weasel words or what the definition of is is, instead of getting to the bottom of this and hold a minister accountable per the prescribed rules and proceedings of this committee and the Legislative Assembly, then it is very precious little wonder that your political fortunes are in the state they're in.

Ms. Atkinson: — Mr. Chair, just to respond to that, just for the record, Mr. Wall indicates that, you know, my argument that somehow the opposition didn't ask the right questions. That's not my argument.

My argument is that the opposition . . . Just for the record, so . . . Of course, we will have a record so you can't misstate what I'm saying. What I am saying is that you are trying to build a case based upon your questions and based upon the minister's answers.

My argument is that your case might be more compelling had you asked more specific questions particularly about the nature of the partnership. Your members failed to do that. Because your members failed to do that, I think it's irresponsible to try and build a case based upon the minister's answers to some fairly general questions.

And so, I think the members do not . . . they have not built their case that the member was in contempt of this legislative committee. They've given it the good old college try by taking documents from other matters and trying to insert it into this committee's proceedings. They have not been successful and they will have to take their case to the Legislative Assembly. But they have not built their case here before the committee and therefore the committee should oppose the member's motion because the member . . . the minister is not in contempt of this committee.

Mr. McMorris: — Thank you, Mr. Chair. It's very interesting over the last six years the whole issue has been held under wraps. The Premier finally has said, we're going to get to the bottom of this; and he's asked for the report and it's come out and apologized and said, we were wrong.

The minister has come out and apologized because he said he was wrong. He used words that were inappropriate as according to the documentation we have. And where did that start? That started right here in this room with these statements, and now you're saying it isn't.

It's very clear the building is a partnership and that's why they didn't have to touch the CCTA. That's where the lie began. It was never a partnership. It was never a true partnership between Con-Force and the government and he knew it then. But for six years it was held under the surface until the government eventually had to release the documents through a court process and then the Premier finally said, well now we'll get to the bottom of it.

And you're going to stand in the way of holding the minister responsible for when he started the lie right here in this document. It starts right here and it's about time that the minister was brought forward in this committee to answer why he started misleading six years ago. That's when the lie started, six years ago in this very statement. Did he answer the question about CTA correctly? You bet he did. Did he answer the questions of whether the buildings were a partnership? No, he didn't. And that's where the deception started.

And you can work it around and try and play games and try and hide. The Premier and the minister have said they were wrong, they have deceived, they deceived on this issue. And you can try and hide it here but it started right here, and it better continue on right here.

The Chair: — Can I ask you a question? You used the adjective, true partnership. Is there some other kind of partnership or . . .

Mr. McMorris: — So okay, you want to start playing with the words. What is the Premier saying? Was it a true partnership?

The Chair: — Is that what the Premier says?

Mr. McMorris: — Was the . . . Did the minister say it was a partnership?

The Chair: — The minister has clearly said, I think, from the verbatim . . . used the word partnership. But I don't believe he used the word true partnership. I don't believe he qualified it by saying it's a partnership in which the government had a minority interest. And that's what I'm trying to understand.

And how . . . But you're saying that he characterized it in committee as a true partnership?

Mr. McMorris: — The partnership of . . .

The Chair: — Did he characterize it in committee as a partnership where the government enjoyed a minority interest?

Mr. McMorris: — The Premier has . . .

The Chair: — That's what I'm trying to understand.

Mr. McMorris: — Okay. The Premier has said in his document that the word partnership was inappropriate, correct?

The Chair: — Let's go back to what is it that the minister said in committee. What did he say in committee? I don't have the verbatim in front of me.

Mr. McMorris: — The building is a partnership.

The Chair: — The building is a partnership.

Mr. McMorris: — We have entered into a partnership.

The Chair: — Okay.

Mr. McMorris: — And so then the Premier comes out later and says that the use of the word partnership was inappropriate. It was wrong.

The Chair: — No, I think where they said that . . .

Mr. McMorris: — The characterization of the business relationship as a partnership, where government enjoys a minority interest, was inappropriate.

The Chair: — Okay. Did the minister use those words, where government enjoyed a minority interest, in his response in the committee?

Mr. McMorris: — . . . was inappropriate. Right here.

The Chair: — Isn't that the issue here?

Mr. McMorris: — This is . . . The Premier has said the characterization of the business relationship as a partnership where government enjoyed a minority interest was inappropriate.

The Chair: — And is this . . . Okay, I'm just trying to get it clear. I don't have the verbatim in front of me. Is that what Mr. Lautermilch said, that we are a partnership and we have . . .

Mr. McMorris: — The building is a partnership. We have entered into a partnership.

The Chair: — Where we enjoy a minority interest?

Mr. Wall: — Oh geez, give me a break.

The Chair: — Is that what he said?

Mr. Wall: — Give me an absolute break.

The Chair: — No, is that what he said? I'm trying to understand.

Mr. Wall: — He's characterizing this as a partnership.

The Chair: — I don't have the verbatim.

Mr. Wall: — It doesn't matter if it's 70/30 or 80/20. The Premier says it's inappropriate. I mean, there was no partnership. That's the point, you guys.

The Chair: — Well I'm just trying to understand.

Mr. Wall: — This is unbelievable. Especially coming from you, Pat, after this nonsense.

The Chair: — Sorry. Mr. McMorris, you still have the floor.

Ms. Atkinson: — Oh you're . . .

Mr. Wall: — It's just . . . well it . . .

The Chair: — Are we ready for the question on this?

Mr. Wall: — . . . the taxpayers.

The Chair: — Are we ready for the question? Are we ready for the question? Are we ready for the question?

All those in . . . Is the motion agreed?

A Member: — Agreed.

The Chair: — All those in favour of the motion please say aye. Those opposed, please say nay. The nays have it.

Let's take a recess and then we'll come back for crop insurance.

The committee recessed for a period of time.

Saskatchewan Crop Insurance Corporation

The Chair: — We have with us today the Saskatchewan Crop Insurance Corporation and the persons of the chairman of the board of directors, who is Gord Nystuen, who is also deputy minister for Saskatchewan Agriculture, Food and Rural Revitalization, and Doug Matthies, who is the general manager of Saskatchewan Crop Insurance.

And, Mr. Matthies or Mr. Nystuen, either one of you can introduce us to the other two officials who are with us.

Mr. Nystuen: — We have three other officials who are with us today. One is Donna Bellamy. Donna is in the back and she is our executive manager of field operations. We also have Terry Dingle, executive manager of information technology. And lastly, Lorne Warnes, who is our executive manager of finance and administration.

The Chair: — Before you start, also with us today are Mobashar Ahmad from the Provincial Auditor's office, and Jamie Wilson from the firm of KPMG.

Now Mr. Matthies and Mr. Nystuen have a presentation they want to make. It will be about 15 minutes or so and then we'll open it up for questions. Is that okay? Okay then I'll turn it over to you.

Mr. Nystuen: — Thank you, Mr. Chair. What we have put together is a package of information that sort of scopes out a number of the principles and issues about the Crop Insurance as a corporation, and also some historical data on premium rates and a whole bunch of other things. We thought this would be a good briefing for all members of the committee and then use that as a basis to go into the discussion.

So with that I'd like to turn it over to Doug for his comments and he'll take us through the presentation this morning.

Mr. Matthies: — Thank you. I have a fairly loud voice I think so if anybody can't hear me let me know and I'll turn the mike on. If I stand I hope I'm not going to be in the way, or I guess I'd better have a look here. Sit would be better? All right then I'll sit.

Okay as Gord indicated the items that we'd like to cover: basically to give the members of the committee a brief overview in terms of the corporation, its role within government, the programs that we administer and the policy guidelines that we follow in developing these programs; and also a bit of a recap in terms where we've come from, where we are, and some of the items related to the 2002 challenges. Because while the annual report for 2002 is obviously not completed yet — because it's a March year-end — it's certainly been a record year for us.

In terms of the corporation's role, we are a Crown corporation. We are established by a separate Act of the legislature and basically our role is as a delivery tool in administering federal-provincial risk-management programs. We are distinct from other Crowns, commercial Crowns if you will, that the committee reviews because we do not have a profit motive. All of the funds that we administer are held for the purposes of the programs that we're delivering, so they're . . . basically any surpluses that we may have in one year is invested back into the industry in subsequent years when there is a loss.

Organizationally we are aligned under the Department of Agriculture and Food and in that capacity we have played a role in delivering programs in addition to crop insurance. And I'll touch on that momentarily. Essentially though, because we are delivering federal-provincial programs, our role is one of working in a partnership environment between the two different financial stakeholders — federal and provincial governments — and also with producers in basically taking their ideas and suggestions from a policy side of it, then moving forward with enhancements to the programs.

In terms of the core programs that we run, most importantly is the crop insurance program. It's a yield-based, multi-peril program.

We also run a number of other programs where the traditional yield base of information is not available, and as an example our forage rainfall insurance program, I'll cite. It's a proxy program, if you will, inasmuch as we're not actually measuring how much grass is on a pasture or not but we're using rainfall to develop an insurance program to provide compensation to producers when there isn't enough for cattle feed, but it's not run with the same measuring of grass, if you will, as we do in our regular programs.

Other programs that we operate, we offer grant programs for waterfowl and big game programs. These are not insurance based; these are, in essence, to provide compensation because the government has controls in terms of what the producers can and can't do in terms of mitigating losses for wildlife on their properties.

We've delivered a number of other programs in the past, most recently the C-SAP (Canada-Saskatchewan Adjustment Program) and the CSAP II (Canada-Saskatchewan Assistance Program) program, and in prior years we've delivered a number of other programs around drought assistance, etc.

And we have linkages with other programs. Crop insurance is used as a security tool for the spring cash advance program offered by the federal government and any of the payments that producers receive out of crop insurance are considered part of eligible income to maintain your margin under both NISA (Net Income Stabilization Account) and CFIP (Canadian Farm Income Program).

In developing our programs, there are five principles that we focus on. The first one is trade compatibility — basically making sure that nothing that we do from a program side puts Saskatchewan producers at risk in terms of countervail. So that means that we're looking at production-based insurance, not price support. Price-support issues would detract countervail.

Market neutral — basically we try to make sure that we are not going to unduly influence the practices of farmers. We shouldn't be offering a program that's going to make them do something or tend to get them to do something that they wouldn't do in the absence of a program following market rules.

We are insurance and so we run on a set of insurance principles. It has to have an element of risk or uncertainty to it. Crop insurance is not a grants program. The coverage and the rates that we offer are actuarially certified by an independent party to make sure that they are the right rates and the right coverage. That's important for confidence, both on the producers' side and for both levels of government in providing funding. And similar to other insurance contracts, life insurance in particular, it's a continuous contract so until the producer or the corporation make a change to the policy, it runs its course.

The fourth point, being affordable and following good public policy and decision making. Basically we don't force anybody to buy crop insurance; that's your choice. Producers have a number of risk-management tools at their disposal. We hope and believe that crop insurance is a good choice for them and we have about three-quarters of all of the acres in the province that are insured under the program, but it's not mandatory and producers can do other things if they choose.

We follow a multi-peril approach as our preferred course, basically trying to offer as comprehensive as an insurance as we can. And we also follow a principle of offsetting production. That helps to keep the premium rates low and it's also, I think, good public policy in terms of, are you using taxpayers' money to make sure that there's a loss in place. So if you will, if you had two fields of canola and one did very well and one did poor, you would pay if in aggregate there was a loss. But if one was a bumper crop and one wasn't, then you may not necessarily have a claim.

And the last point is we're being sensitive to producer needs. Key in this, I think, is we have always used and obtained the feedback from producers in developing the policy tools that we've developed and put in place over time. Starting in 1961,

Crop Insurance only insured three different commodities at one value. Now and over the years, as producers have come to us with ideas and suggestions, we've incorporated those and we've evolved into a much more sophisticated and comprehensive program.

I think probably the other things that I'll touch on in this slide, the equity principle is really important to our producers and to ourselves — basically if a producer in one part of the province should have the ability to expect the same treatment as a producer in another part of the province. So equity principle is important. If you're experiencing similar conditions, you should expect similar results from your insurance.

And the last point here I just want to emphasize. Crop insurance doesn't make producers do dumb things, and the corollary also exists that we don't pay for dumb losses then, if you will. If it's not reasonable that you have to follow a particular farm management practice, then we don't make you do it. By the same token then, we don't pay unreasonable losses.

In terms of our strategic policy items. The 2001-02 annual report that was circulated contains more information in terms of our strategic plan, but I just thought I would just sort of summarize here four main points. These are the directional pieces that we focus on right now as we look to improve the program and bring it forward into the new years.

Supporting the core multi-perils program first. It's important that farmers and government see the program as relevant and effective to them. We support crop diversification as farmers are looking for new niche opportunities and new markets.

Supporting livestock development. Livestock is something that the province has made strategic decisions on to try and build in terms of our agricultural base, and so we help support that through our forage-based insurance programs.

And the fourth point, looking for innovative ideas and alternative products. Basically, acknowledging that there is a lot of changing and different needs out in the marketplace and in the world of farming, and we need to keep our eyes and ears open for new solutions to meet those challenges.

I'd like to spend a few minutes just giving the committee members a bit of an overview in terms of how the crop insurance program works. It's quite simple in concept and the details always get a little bit more muddled. But I'm going to try and keep it at a reasonably conceptual basis, I think.

Basically we provide protection against yield losses. Whether it's because you've got a bushel loss or whether it's because of grade loss, if you're harvesting less this year than your historical norms would suggest that you should have harvested, then we provide compensation.

We run as an insurance-based program so we have very specific named perils and named crops that we insure. Basically we're looking for things that are natural hazards, natural perils. And as an insurance company, our focus is to try and get payments out on a timely basis so producers have money in their pocket to pay their bills and move forward.

In terms of what we don't do. We don't cover against low prices. We don't cover if you don't seed. I have to apologize to the members, there's some sound effects on my display here. I was cutting and pasting from another presentation, and I didn't realize I'd picked up the sound effects on it as well.

Coverage if you don't seed — basically, that's back to the insurance policy. There has to be an element of risk or uncertainty. If you don't seed it's guaranteed you won't get a crop, so we can't cover it under crop insurance.

And the last point there is, again, we don't cover losses as a result of management practices or third party liability. Whether it's something you did or didn't do, if it was reasonable that it should or shouldn't have been done, then we don't cover those losses. So if you need help against any of these type of items then don't look to crop insurance, look to NISA or other risk-management strategies.

In terms of how the program works, there's basically a limited number of simple formulas. Price times yield times coverage level dictates how the insurance works. So if you follow that model then, price is a function of markets, yield is a function of your past experience, and if you don't have significant years of past farming experience then we'll supplement it with area information if need be.

And then the coverage choice is the farmer's decision in terms of where is his risk return per trade-off. So he can pick 50 to 80 per cent of his average yield. That tells him what his coverage per acre is. His premium is just taking that value, multiplying by a rate, and the rate is a function of the losses that we're insuring against and where our experiences are. And then the claim is just a difference between that guaranteed coverage and whatever he actually harvests.

So that's crop insurance in a nutshell. We tend to refine it a little bit past that based on what producers are looking for. So one of the things that we do different around yields, for example, is we reflect soil productivity in the values that we offer. Some soils tend to generate better results than others so that's reflected in the program.

Similarly when we deal with premiums, premiums are initially calculated on a risk-area basis, but then to reflect the individual experience of a farmer, we tweak it down to his level through a premium surcharge or discount. So if you don't have a lot of claims, you get a discount on your premium. If you're in a high-loss situation, high frequency of claims, then you'll have a surcharge on your premium.

Other features of the program, and I'm not going to go into these in detail at all, I'll just sort of mention that in response to producer desires we've added things over the years. So a reseeded benefit, benefits if it's too wet to seed, diversification, organic, etc. So there's a number of other features that we have but I won't spend any time on those. If you have questions I can come back to them.

Premiums under the program are cost shared between the federal government, the provincial government, and producers. On the bottom of the slide you can see what the premium sharing was in the 2002 crop year. In essence, government's

involvement in crop insurance stems from the market's desire not to be involved, if you will. And that's a function of the frequency of our loss experience and the magnitude of our loss experience.

In our experience we're running losses about on average every three years, and that's far too frequent for private sector to be comfortable in terms of offering protection. If you parallel this with the automobile industry for example, you have far fewer . . . a far smaller ratio, if you will, of the number of vehicles that are in accidents versus the number of vehicles that are on the road.

With crop insurance, if we have a drought the whole area is hit. So we get large hits across a large belt and the losses tend to be more significant.

So the private sector did try offering this program back in about the 1930s. They ran it for a couple of years, lost their shirt and bailed. So government then became involved through previous programs, which eventually turned into the crop insurance program we have today.

This is a bit of a snapshot in terms of historical premium sharing. I've only gone back as far as 1973 here. You can see for the longest period of time we were actually 50 per cent shared by producers and 50 per cent by governments. Prior to that, producers paid actually a larger portion. And then, starting in 1997, the two levels of government moved to a slightly different premium-sharing model and that's basically made it cheaper or more affordable for producers.

In terms of financing excess losses and when I talk about the number and frequency of losses, obviously having reinsurance is critical so that we can get cash out to farmers. The program is self-insured by the two levels of government. The rationale, if you will, is that there's no profit motive in crop insurance. There's no dividend back to the Crown, if you will, that is there to be protected.

Basically, the program has actuarially reviewed rates to break even over time and the government's cost-to-capital is as cheap as or cheaper than buying it from the private sector. So for this program, it's reinsured between the two levels of government. The trade-off, of course, is then you have more volatility in the Department of Finance in having to borrow money if there isn't sufficient cash around to pay the claims and then that's recovered through future premiums.

In terms of the mechanics of how it works, all of the money for our crop insurance premiums are initially paid into the Crop Insurance Fund. And then, out of that fund, funds are paid to both a provincial reinsurance account and a federal reinsurance account and those accounts accumulate monies for excess loss years. If those accounts do not have enough cash to pay all of the claims, then both of the treasuries borrow money, if you will, and then loan it to the corporation to pay the claims and then those loans are repaid as future premiums come in.

The Federal Crop Insurance Act sets out the maximum federal participation in terms of the reinsurance and it essentially defines three layers of loss. The first layer is anything you have to pay out as first coverage from whatever money you have in

the Crop Insurance Fund. If the Crop Insurance Fund goes broke, then the province is on the hook for the next layer of loss and that's calculated as two and a half per cent of liability.

So in 2002, for example, we had \$2.5 billion in liability, so \$62 million in essence was the provincial layer. That's the second layer of loss. That's a layer that the federal government insists on having in place, essentially to protect them against potential moral hazard that they see in provincial administrations.

Their concern is that once a province is in a loss, if all of the federal monies start flowing or the majority of them, then they're concerned that administrations may just sort of let the floodgates go and let the money come out. So they insist on that as a measure of making sure that all of the rules continue to be fairly applied. We have argued with them a little bit in the past because we say, well you can come in and audit us and everything and make sure that we're following the right rules, and they do, but they insist on it anyway.

The third layer of loss then is shared. Anything in excess of the first two layers is split on a 75/25 ratio between the two governments.

In terms of our financial position, the most recent annual report that you have is the 2001-02 and so the Crop Insurance Fund number here ties into the annual report that's in front of you. The reinsurance fund financial statements are also in the same annual reports and that ties in as well. And the reinsurance fund for Canada is not in these reports because it's administered by Canada. But in essence, the values are as reported up here.

So in total we had \$286 million in surplus coming out of the 2001 crop year. We lost about \$100 million in 2001. So if you went back a year earlier, we had 386 million roughly or almost 400 million in the bank prior to the 2001 crop year.

And when I take a longer term perspective than that, if you compare the time period from 1961 when the corporation started until 2001, in essence the premium stream plus interest on the premiums when we've had surpluses basically equals the payouts that we've made over that same 40-year period.

This \$286 million that we had in surplus prior to this crop year, essentially was made up, if you will — or coincidentally perhaps is maybe the better word — is about the same money that we received from the two governments at the end of the '96 crop year as a debt reduction payment. So strictly based on premiums and the interest, the program exactly worked over 40 years — premiums equals claims. And that's before 2002.

I wanted to put a little bit of information up here in terms of participation — participation in the program. We find the best measure is looking at acres because the number of producers can change but the land doesn't change basically. And so we looked at the ratio of how many acres are people insuring versus how many acres are seeded.

So this graph basically gives you an indication of what percentage or what proportion of acres are being insured every year. We're at about three-quarters of all of the acres are insured right now — 74 per cent. And you can see over time that that's gone up or down a little bit depending on producers'

preferences.

The stars that I've indicated on the graph here basically show province-wide drought years, so when you look at that there tends to be a bit of a trend. You can see following drought years, participation tends to go up and then as you start to drift away from higher loss years, participation tends to go down.

In our experience, all of the loss years that we've ever had in crop insurance are due to large droughts, except for 1992, when we had an early, province-wide frost.

This chart basically gives you an indication of the surplus or losses that we experience over time. And essentially the image that I wanted to leave with the members here is though losses don't happen as often as surpluses, we certainly need them because when they come they tend to be bigger. So the valleys are deeper, so we need to have more surplus years to cover the losses.

In terms of the rates that we charge, this basically is showing from '82 to 2002 what our premium rates are. The top line shows the total rate, and the lower line shows the rate paid by producers after the subsidies, or the portion paid by two governments, are taken off. And basically if you look at this chart versus the acre one, you can see that when rates peaked in 1993 at 16 per cent that's the same year that participation started to fall off dramatically as well.

However as we move forward, the decade of the '90s was a good year for crop insurance — the only time we lost money was in 1992 — that allowed us to pay off the debt. We also received debt reduction payment in 1996, and so that favourable experience brought rates down; we were able to . . . And so you see the trend here where rates were coming down to a point where actually at the 2001 crop year it was sort of a historical low rate. We were selling very cheap insurance, if you will, vis-à-vis our past experience.

In terms of 2000, just some comments for the year that we're still completing. It was a record year for us in terms of the value of the insurance that we sold — \$2.5 billion in coverage. That's more than we've ever sold in the past; half a billion dollars more than we've ever sold in the past.

And I've chosen to put some comments on here comparing 2002 against '88; '88 was the previous worst year on record for us, if you will. The liability we sold this year is more than double what we sold in 1988. That's a function of more acres insured. It's a function of producers having the opportunity and buying higher coverage than was available in 1988, and it's also a function of the crop mix. We're growing more higher valued crops than we were in 1988. So all of those things combined resulted in a higher coverage.

In terms of claims, or our loss ratio, you know, in absolute dollars this year is by far and away the worst on record. We are going to come in in around the 1 to \$1.1 billion level. Compared to '88, which is 466 million, it certainly far exceeds that. But relative to the cover that was sold, the years are actually fairly close. They're both around that 40 per cent.

So after coming through 2002, we will be in the neighbourhood

of \$550 million in the hole. You can see up here that the province is going to carry between 80 and \$85 million of that debt and Canadian reinsurance account will be carrying the lion's share of it, 460 to 470 million.

If we add the 2002 loss experience of the previous chart, historically you can see that it certainly changes the scale of everything. Nowhere have we had anything that came close to that size. But again, that comes back to the amount of cover that people were buying and that's a significant point in terms of understanding this year's loss.

Couple of other comments just on the deficit. Taking a historical perspective, up to 1983 we had basically been building a surplus. And so we had \$127 million in accumulated surplus to the end of the '83 crop year. Then we ran into a string of four droughts in the '80s. The first one, 1984, basically wiped out all of our surplus. From there it took us 13 years to get back into the black.

At our peak we're at \$640 million in the hole and in 1996, as I mentioned earlier, we did receive a \$290 million debt reduction payment from the two levels of government.

So putting things in perspective to this year, we've been worse off than we are now and we recognize that you don't get out of this size of a debt all at once. You're going to have to take some time to get out of debt.

The federal account, if you remember from the earlier slide, at the end of the . . . or just starting the 2001 crop year . . . 2002 crop year, they were still 6 million in the hole. They've actually never gotten out of debt since the 1983 loss. And as a result of that, they are insisting that they will not offer reinsurance in 2003 unless there are changes made to the reinsurance structure. Basically they want to get paid off is what their bottom line is. They will still offer the same coverage but they want to get more premium to get their debt paid down. And those are details that are still being fine-tuned.

And they've also made it very clear that they are not interested in another debt reduction payment. So their message is the program is actuarially sound. It just takes a while. We're patient. We're prepared to live with that, so . . .

A couple of other comparisons. Again, part of the reason for the higher liability this year was the higher coverage people were buying. We had 53 per cent of all of the acres we insured this year took the maximum coverage of 80 per cent. We've never had levels that . . . or not for years and years and years have we had anything that came close to that; 14 per cent of the acres at 80 per cent is sort of where we've been for almost a decade.

Average premium rates in 2002 — just comparing the Prairie provinces — we were, if you will, sort of in the middle. Our average rate in 2002 was around the nine and a half to ten per cent. That's total rate before applying government subsidies. And Alberta, they were looking at a higher rate; Manitoba at a lower rate. Manitoba has had less claim volatility, less production volatility, so they have a lower rate. They also have a surplus of about four times annual premiums, so actually they are negative loading their returns to try and deliberately reduce their surplus. So that's why their rates are lower as well.

And I think I've used my 15 minutes, Mr. Chair, so I'll adjourn and we'll field questions.

The Chair: — Thank you very much. Questions . . . (inaudible interjection) . . . Maybe before we get that, if there's any comments from the Provincial Auditor and from KPMG, Mr. Ahmad and Mr. Wilson can provide those now, and then we'll get into the questions.

Mr. Ahmad: — Thank you, Mr. Chair. I have very brief comment to make.

For the year ended March 31, 2000 and 2001, we completed our audit of the corporation and the reinsurance fund and reported our finding and conclusions in our 2000 Fall Report Volume 3 and 2001 Fall Report Volume 2, respectively.

To form our opinions for both years, we worked with KPMG, the corporation's appointed auditor, using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.

In our opinion, the financial statement of the corporation and the reinsurance fund for both years are reliable. The corporation had adequate rules and procedures to safeguard and control its assets and assets of the fund. And the corporation complied with the authorities governing its activities and the activities of the fund except that the corporation was late by about six months in tabling its annual report. And the corporation was also late, by about a month, in tabling its 2001 annual report.

Also, in the year 2000-2001 we followed up on the recommendation we made in our '99 Spring Report to help improve the corporation's claim adjusting practices. We found the corporation was making good progress toward implementing all of our recommendations. That concludes my report. Thank you.

Mr. Wilson: — Thank you, Mr. Chairman, committee members, officials, and other guests. We've conducted the audit of the corporation and the reinsurance fund for the two years under review. Our audit opinion is contained in the annual reports for each of those two years.

We conclude that the financial statements are fairly presented as at March 31 of each of the years, in accordance with generally accepted accounting principles. We've also, in accordance with the requirements of the provincial auditor's Act, conducted sufficient work to enable us to report to the Provincial Auditor on the internal controls and legislative compliance of the organizations for those two years as well.

Our reports under each of those matters were clean, except for the matters that Mr. Ahmad had mentioned previously with regard to tabling of the annual report.

I have nothing else to comment on, although I'd be glad to answer any questions if there are any.

The Chair: — I have one question. You say that the federal government also does an audit of the affairs of the crop insurance. Do they then rely on the audit opinion from KPMG or do they send in a separate team of auditors?

Mr. Matthies: — Mr. Chair, what the federal government chooses to do is occasionally come in and do an audit, not of the financial activities but of our compliance with the terms of the crop insurance agreement — so how we're doing claims, how we administer the program. They take the opinions of the external auditors in terms of the reliability of the financial statements, but they choose to test other things under the crop insurance agreement for their own comfort that we are not costing them more money than we should, if you will.

The Chair: — More of an operational review then . . .

Mr. Matthies: — Correct, exactly.

The Chair: — Thank you. I don't have any further questions at this point.

Ms. Atkinson: — I know that this . . . well this question is a generic question. Crop insurance has rain stations, do they, where they look after . . . they check to see what sort of precipitation falls in the province?

Mr. Matthies: — We use precipitation stations that . . . some of them are Environment Canada weather stations and in some of the programs we've contracted for additional stations where Environment Canada didn't have them, but we contract Environment Canada to do quality control on them.

Ms. Atkinson: — Right. Tell me about the RM (rural municipality) of Biggar, which is the RM I'm familiar with. Can you tell me how many rain stations are in that RM?

Mr. Matthies: — In terms of the rain stations, there's only one that we rely on in any of the RMs, and that is meant to . . . I guess maybe I'll back up and say that where we use rain stations, we use those in what I would call a proxy or area type of insurance program. And we're using it in the forage rainfall insurance program because we find that there are no good working models anywhere in the country or in the United States that offer a good system for insuring pastures, if you will. So what we have chosen to do is to use the rainfall model as a proxy because if you don't get rain, you don't get grass and that's the best correlation that we can find.

So what we do is we ask the producer to select a weather station that is close to where his land base is and that provides a proxy in terms of what's happening on his particular farm. It will not be exact and we tell producers that but it gives them some coverage and, depending on the proximity of the weather station to his land, it gives rough justice, if you will.

Ms. Atkinson: — Another question. When drought assistance programs are being put together, does anyone contact Crop Insurance to find out where there might be drought in the province of Saskatchewan?

Mr. Matthies: — We work very closely with the department. I mean, I report through to the deputy's office. And so, I guess my comment would be when the province has put together a drought monitoring committee, members of my staff have been on the committee.

Ms. Atkinson: — Okay. Just an observation. My family is in

the Biggar RM. It's the largest RM in the province, I believe. They amalgamated a number of years ago. And when the drought program came out in the fall, this was an RM that was considered not to be in a severe drought area. And this was an RM where most people got wiped out for, I think, the sixth year in a row. And apparently, it had something to do with the way we monitor rainfall.

So we have people who were totally wiped out, got crop insurance but weren't eligible for any . . . Well they were eligible for some coverage in terms of livestock, but it wasn't appropriate to the severity of the drought.

And I just think, in the future, if we're looking at these kinds of programs, there needs to be a closer relationship between what happens in crop insurance and what happens in drought assistance. And I just wanted to put that on the public record for people who are still in shock that even though RMs surrounding them were considered severe, they didn't rate that kind of ranking and they didn't rate it because apparently some place in the northern part of the RM, they got some water. But this is the largest RM in the province. So they were being compared to really small RMs.

And it's just a fairness question and I think that the government policy needs to be fair.

Mr. Nystuen: — Mr. Chair, one of things that we are continuing to do with our rainfall monitoring is to build out to more stations that monitor what is exactly that precipitation activity that occurs in the province.

I think last year we had a radius of something, was it . . . (inaudible interjection) . . . Fifty kilometres. This year we're adding more stations, trying to close that gap so that we have more stations in the field. I think we'll be able to attain sort of a 40-kilometre radius for the rainfall, but what we're trying to do again is to get as much data with regards to that, okay.

The issue of RMs and size and proximity: when you use a model that has rainfall stations that do proximity and so you're using radiuses, what you do is you create a map that essentially, yes, overlays to an RM but it really is data across the entire region, okay. And so in trying to come with drought models — and I can look specifically at this — but it wouldn't be only the data at the one station that would depict what happens within a region; we try to use as much data from all of the surrounding weather stations.

Mr. McMorris: — Thank you, Mr. Chair, and welcome to the officials. It's interesting to be talking about crop insurance. It's looked kind of . . . That wasn't on my mind when I got up this morning and it was 35 below out and I'm thinking about what am I going to seed and what is my coverage rates.

But nevertheless, I guess a couple of . . . I'm going to probably jump all over the place; not a whole group of questions in any one area. But regarding the premiums, is there any sort of regulation or legislation that limits the percentage of increase in premiums in a year or can the premiums go up whatever the corporation feels it needs to cover? Is there any sort of cap on premium increase per year?

Mr. Nystuen: — If I could respond. In fact there is not a cap that says premium rate couldn't change by, let's say, 100 per cent in one year over the next. In actuality — and Doug alluded to it on a number of different times — the methodology has a couple of components. One of them is the actuarial basis, always looking at the premium base versus liability and probabilities of claims. That's one overlay.

The second is the crop insurance agreement between Saskatchewan and Canada, and that really drives how much government resources go in to the premium base. And as an example, if all of a sudden the generosity of the federal government occurred and they said, well we want to double what we put in in premiums, that would have a huge impact on what the rate would be seen by a producer. Conversely, and if they are reluctant or change the terms under which they will provide premiums, that will also have an impact.

Today the federal government has placed a proposal nationwide that says, essentially there's a double 60/40 formula with regards to premium sharing and producer premiums. Essentially there's a ratio of 60 per cent from government, 40 per cent from producers. And then within that 60 per cent from government, 60/40 between the federal government and any provincial government. That structure and formula is conditional upon any federal premium going into the load, okay.

Now there is some transition time. That must be complete, in the federal proposal, at the end of five years. Historically Saskatchewan's producer share has been about 37 per cent and so we're relatively close to that. Provinces like Manitoba have some very significant stress to go through because the federal government are saying, you've got to get producer premiums to 40 per cent. Doug's indication is that they've got negative loads because they've got a large surplus.

And so there's some changes that are going to be occurring in some other jurisdictions but that will also have a function. So it's actuarial soundness and then also the participation rate of governments.

Mr. McMorris: — A couple of questions on hail insurance and spot loss hail and I think that was, I know, the issue in our area, especially southeast of Regina. We're fortunate enough not to be affected with drought over the last number of years and so hail was a major factor in our area. I know the argument was thrown out different times, well when you're not getting any rain, you're not going to get any hail. But that's for part of the province of course, and it's such a huge province.

I'm looking at the 2000 report on page 16 and it goes through a number of years. And I'm not sure that I'm reading this right and that's why I'm asking the question, if I'm understanding . . . whether I'm understanding this right where it talks about the total premiums and net hail indemnity. And I'm going through a number of those years.

I guess I would be interested in hearing from the corporation as to how the hail insurance has worked over the last six or seven or eight years as far as premiums to payout has been. Has it been a net loser or has it actually brought revenue into the corporation over . . . again when I look through those numbers it looks like, you know, 2000 was a bad year and there was one

other year, 1995, that was a significant payout compared to premiums taken in. But I'm not sure I'm reading that correctly and I'd like a clarification.

Mr. Matthies: — Mr. Chair, I believe you're reading the table right. If you look at the third column in, total premium, and then you look at the very end column, net hail indemnity, those two basically show the difference between the money that came in and the money went out. So '94, '95, and 2000 were actually large hail loss years within the province. And whether you were Crop Insurance or in the private sector, those were the large loss years.

And then the other years were when we were recovering the deficits, if you will. And at the end of the program, if you just look at those totals, obviously we had 247 million in cumulative premiums and 260 in cumulative payouts. So we were about 13 million in the hole after '94 to the 2000 crop year.

Mr. McMorris: — One quick question. So that would . . . Would that then have . . . I mean, that's 13 million over seven years, I believe, seven crop years. That would have been the reason then for dropping spot loss hail? Would that have been the main reason, because it . . . actuarially you were not sound, or . . .

Mr. Nystuen: — I think if . . . To put some different context on the hail portion of crop insurance, last year was the first year that we had not offered hail insurance for a number of years. In fact I think it was the 1994 insurance year, Crop Insurance also did not insure hail.

A Member: — Ninety-three.

Mr. Nystuen: — Or '93, I'm sorry.

One of the challenges that always exists is that there is a finite number of premium dollars between Canada and Saskatchewan to offer a crop insurance program. And so when you're dealing with that, essentially what you find yourself is, you've got premium subsidy or dollars available to offer a program, and then you have to allocate those resources across the needs in the community.

One of the challenges that we found ourselves in last year is that we had successive years of drought, some relating back to six years. Our acres were climbing, prices were up modestly, and so we find ourselves in a spot where we have the potential for a huge number of acres — last year finding ourselves in a spot where we have \$2.5 billion worth of liability that we're trying to cover. When you're going through that equation, you're trying to take the government resources as best you can and allocate them across the program.

The province found itself in a spot where it in fact changed the 60/40 ratio and added more resources to crop insurance to, in fact, put a program together. We found ourselves resource short.

One of the challenges that we are trying to rectify in the new safety net structure that caused that predicament is that in the safety net formula Canada takes all resources from the 60/40 relationship — and for Saskatchewan/Canada it's 130 million

provincial resources to 195 federal resources — pays NISA first, pays crop insurance second. And so all we ever get for crop insurance is the remainder in that relationship. So you cannot design a program format that says well, what are the community needs.

When you make choices across that, one of the things that we went to is, are there options for alternative insurance to cover off specific risks? And we have a very broad market with regards to hail insurance in Saskatchewan — private sector but also public sector. The municipal system runs a very robust hail insurance program and in fact I think we made some amendments last year that allows them to offer higher coverage rates.

Essentially we found ourselves in the spot where you have choices to make and it was a matter of policy that we said, you know what, we're at real drought risk across the province; let's make sure that we have resourced that program as best we can. And indeed the producers responded to it and we had two and a half billion dollars worth of liability that we underwrote.

The Chair: — Well like Mr. McMorris I certainly didn't wake up this morning thinking about crop insurance and . . . But I was wondering what happened last night to cause such a big chill to descend on Saskatchewan and was it something that happened in the Melville area.

But having said that, I think we're going to recess for the lunch hour. And I do have a question for you when you come back. And if I can just relate it to you now: that is, I found your presentation to be very interesting; it's not one that I've sat through before. As an urban member I must say that, you know, there are aspects of government operations in Saskatchewan that sometimes escape me but you've done a very good job of your presentation.

My question though is not about so much about what we do here but what might be done in other jurisdictions in North America, or indeed the world, in terms of crop insurance and the . . . particularly the question of public participation.

And having said that, I suggest that now we recess until 1:30, and we'll see you then.

The committee recessed for a period of time.

The Chair: — I call the meeting to order. And I asked the question before the break and throw it open to you. I know that's not, strictly speaking, dealing with crop insurance matter, but I'm just interested. And I don't know enough about that particular topic, so I'm interested.

Mr. Nystuen: — I guess what I would do is I'll turn it over to Doug to give you some perspective on what we know about crop insurance and those programs around the world because he's spent some considerable time on this file, and so he can relate to you what he knows and understands about how this kind of programming is financed in agriculture, sort of, across the globe. So, if you'd do that, Doug.

Mr. Matthies: — Okay. Based on, I guess, the most recent experience that I can recall, there is about 170 or 180 countries

in the world that use a crop insurance type of program. For the most part, the more developed the country is, the more likely it is to have a crop insurance program. And it's basically used in combination as a social and economic development tool, trying to encourage risk taking on the part of producers tied in many countries close to their own personal national strategies around food production.

So the more that's a concern to them and the more affluence they have, then the more likely they are to have crop insurance types of programs; to develop and encourage the risk taking for that type of thing. And as such then it tends to be then, you know, it's a government-sponsored program or you don't have one, for the most part.

And one of the reasons that it seems to have gained another measure of acceptance, if you will, is because it is so widely carried around the world then it tends to be one that by nature then, where you're insuring for natural perils, is less likely to attract anybody's countervail issues because so many other countries tend to have it. So it's regarded a little better, if you will, in terms of the trade circles. So it's an acceptable program, if you will, for the most part.

There are some exceptions. It tends to be where you get money crunching, if you will. New Zealand several years ago abolished basically all their farm programs for the most part because the country was on the verge of bankruptcy. They have, to my knowledge, I don't believe they've reinstated it at all and they went through a significant adjustment period in their ag sector.

And I guess the other comment I would say is I've had some opportunity to meet with people in different parts of the world as they've toured through the West talking. So I've met some from the Asian rim, Ukraine, China, Mexico.

The Mexican delegation that I met with also identified that in their programming they have a state sponsored, if you will, part of it. They also have a part where — for economic reasons where they don't have enough money to invest further into it — they actively try to develop, sort of, the co-op models, if you will, where producers can use the government to manage or organize or administer some sort of co-operative risk management pool. But the government doesn't necessarily inject premium dollars, if you will, to help them bear it.

So that's, I think probably in general terms, what I can offer the committee.

The Chair: — Are there any models at all that are based on just strictly private insurance?

Mr. Matthies: — In the United States they tend to use the private sector for delivery of the crop insurance program. So the sales or admin side of it, if you will, is modelled off a private delivery system. The government provides premium support and reinsurance support.

The Chair: — Okay. No, that's all the questions I have.

Mr. Trew: — Thank you. In other countries — just further to that question — in other countries is crop insurance a Crown corporation or is that unique to Canada, or what can you share

there?

Mr. Matthies: — In my experience you get a mixed bag. Crop insurance as a separate entity facilitates sort of the notion that it's a business. It's not a grant program. It's a business.

In some institutions or some countries though — even in some provinces in Canada for that matter though — it's strictly run as a branch of the Department of Agriculture, if you will though. So it varies considerably around the world.

Mr. Trew: — Okay, thank you. I found your presentation very interesting and there's really just a couple of things. Did I understand, I think I did, that all of the premiums collected — that's from farmers, from the federal government, and from the provincial government — over a 40-year period, those premiums, the total collected, was the total the same amount as the total paid in crop insurance benefits? Did I . . .

Mr. Matthies: — That's essentially correct. The premiums plus interest income on idle funds or surplus funds that we had basically equalled the payouts over the long term.

Mr. Trew: — Okay.

Mr. Matthies: — From '61 to the end of the 2001 crop year.

Mr. Trew: — Yes. And then what about administration fees? That's a separate thing, is it not, paid by both levels of government?

Mr. Matthies: — That's correct. The administration costs are not cost shared with the producer. They're just picked up between the two governments.

Up until 1990, it was 100 per cent paid by the province and starting, I believe, in 1990, it was split 50/50 between the two governments.

Mr. Trew: — Okay, thank you. And now flipping into . . . As I understood your presentation, you got about . . . Crop Insurance has about 550 million, now, debt as a result of 2002 being such a terrible year on the farm and such a terrible year throughout such a huge part of our province. There's no other way of describing it as sort of the worst year I've ever seen, Mr. Chairman.

I got a sense that Sask Crop Insurance is not looking at recouping the 550 million in one year, but can you tell me about your go-forward plan. How do you see that \$550 million being dealt with on a go-forward basis? And if you have any comments on how that might affect this coming year's premium, that would be welcome too.

Mr. Nystuen: — I guess there's a couple of things about how premiums are calculated. One is, in keeping the integrity of the program, there is a formula that we have had rather wide discussions with the farm community so that they understand the basis under which premiums were calculated in the past and how they will be calculated in the future.

When you get into a deficit position, there are a number of loads that go into the formula base. Like there's now a

reinsurance debt and so, because there is, there is a specific calculation that loads into the premiums to deal with that matter, that is a ratio of the total debt in comparison to the total premium that would be calculated. And so as it gets to be a multiple of one or two of that premium base, it starts to ratchet it up.

I think in Doug's presentation this morning, one item that is of significant importance to the province is Canada is wanting to redefine its role in reinsurance. And that's one of the issues that we've taken some significant issue with. They're saying, look, we haven't been in a positive reinsurance balance for 10 or 15 years. Our argument with them has been, no, we have run a program for 40 years where premiums and payouts balance. If that isn't an indication of actuarial soundness and the structures that underpin that, what is? That's more data than we've ever had.

Our view is that they are rushing to adjust some of those premium calculations and recoup. Yes, there's a deficit now, but in a very short time period. We are resisting that as strenuously as we can because indeed the test is, is it actuarially sound through time — not is it actuarially sound this week when you have large payouts? Okay?

And so these discussions have not concluded and so it's difficult for us to look forward and say, well what will the premium base be? We can speculate on how it's been given past loadings and so on, but we don't have an agreement yet from the federal government about what that should be. Okay?

Mr. Trew: — Yes. Thank you, Mr. Chairman.

So in the absence of agreement between the . . . two of the three partners that in fact pay for the administration of it and in fact are on the hook to borrow when it's in deficit, i.e., right now . . . I understood Sask Crop Insurance is patient. That's the signal I'm getting from you — patient — and expected to continue to be actuarially sound over the long term. But you're not panicked to get this 550 million deficit handled in a shorter time period.

Mr. Nystuen: — No. I think there's a couple of things that underwrite this. One is that we had a substantial payout in '88-89 and in fact, the size of the deficit versus the total premium earned in those years is of similar ratio that we have today. And so we shouldn't be any more alarmed today about the size of it and the actuarial principles that we had versus at that point in time.

Mr. Trew: — Yes, thanks. I remember that from the presentation now that you mention it. Mr. Matthies, I can see wants to add.

Mr. Matthies: — Thanks, Mr. Chair. I guess the other thing that I would refer you to, if you looked at the premium rate table that I had in the presentation this morning, I think that the message that we have been communicating to farmers since last fall is you should expect rates will be going up. And they will go up, we have said, significantly. We're not prepared or ready to say what the values are — my boss has laid that out — but we have been giving that message.

And I think the other thing I need to come back and emphasize though is when you look at the change relative to where we are, it becomes significant. But we're near the very bottom of where rates have been.

So the formulas will require upward increases. And when you talk about that, for example, if we were in 1993 where farmers were paying eight bucks an acre, if you go up a dollar an acre, you're going up about 12 per cent. If you're going up a dollar an acre now, you're going up 30, 40 per cent or whatever.

So I don't have any, you know, I'm not giving numbers. And I'm just saying that relative to where we are, from near the lowest point that we've ever had premiums, you know there's going to be a jump. And we've been telling farmers that it's going to be significant. Can't tell you beyond that, but that's the messaging we've been giving.

Mr. Trew: — Okay. Thank you, Mr. Chairman, that's the questions I had.

Mr. McMorris: — Thank you, Mr. Chair. I guess the question on . . . We've talked a little bit about premiums and how it's a farmer, provincial, and federal governments and that goes into a pool and then there's a payout. And of course we all know that in 2002 the payout was much greater than the premiums coming in, and we've discussed that.

You've talked about reinsurance. Now, and the way I understand you, is that the premiums are going in and for a number of years there got to be a surplus built up. Is that . . . That's the reinsurance that you're talking about? You're not looking at reinsuring outside of your boundaries already? Is that correct?

Mr. Matthies: — That's correct. We ran a pilot program with private reinsurers on a portion of our business for two years. We're no longer doing that. Right now the program, and for virtually the life of the program, it has been within government.

Mr. McMorris: — I guess, I mean there's a thousand different ways you can reinsure, and hindsight is 20/20 when you hit a year like this year. You know, I mean can you not, can you not buy reinsurance for the . . . you know, so you don't have the \$500 million loss, you reinsure for anything as if . . . like a \$300 million deductible for example. Is that insurance available, and how . . . I guess over the long term you'd probably say that we've only hit this once, and so would it have been proper to carry that, I don't know. But have you . . . you've looked at that then have you?

Mr. Matthies: — We actually have done a fair bit of work within the reinsurance community. And I guess one of the observations that we took a look at last year, for example, is we said, is it to the province's advantage to reinsure that second layer of loss where it's only the province that's on the hook.

When we looked at the data and when we looked at . . . worked with some reinsurers on it, the problem for Saskatchewan tends to be that when you hit those wrecks you tend to blow right through that layer; you use it all. And that makes it a very expensive product.

So the reason companies tend to use reinsurance is twofold. Number one, they want to protect their budgets because they can't afford the volatility. So if you buy reinsurance you're basically saying, I'm prepared to pay some more every year so that I don't have to take the bit hit up and down. The second reason is if you don't have the borrowing capacity to fund those, and the solvency issues. So that's where you tend to look to reinsurance.

In the province's position it goes back to we have the borrowing capacity, the cost of capital is not more expensive internally — these are the discussions I've had with Finance officials. And the program itself being actuarially certified for long-term solvency, as demonstrated by the last 40 years, would suggest that in the long term it's cheaper for the entity, but recognizing that within years then you have lots of volatility.

Mr. McMorris: — A question, and I guess this is coming more from, in my area and the people that I deal with and even on my own farm, about yield guarantees and the whole issue around that. I was frankly quite surprised to know that 75 per cent of the acres in Saskatchewan are under crop insurance. I guess, anecdotally in our area, you know, you must be hitting 100 per cent in some because you're certainly not at 75 in ours, to average 75.

And the complaint that I hear continually is, is that the yield guarantee does not seem to reflect the crops that we're growing in our area. I mean every year we give our yield, what we've produced, and our guarantees seem to be very, very slow to react and especially in some commodities, you know, and I can think of lentils as one for sure in our area.

And I guess I'd like to know the crop . . . from Crop Insurance how you calculate those yield guarantees, and is it just people in our area saying, you know, not understanding or what have you. Because I mean people quite often don't carry, for example, crop insurance on lentils because they're guaranteed ten bushel an acre and the yield in our area for lentils has been, you know, far superior to that for a number of years.

So I guess, you know, my question is on that yield guarantee, how do you . . . and I . . . There's individual of course and there's area. So maybe if I can get a bit of an explanation on both.

Mr. Matthies: — Okay. I guess that the very technical response in terms of how we calculate yields, we start every producer basically with the notion of a 10-year average, what's sort of the 10-year experience. And if you have 10 years of information, we take your records and our focus is always we want to use your information because that reflects what you can do. If you don't have the 10 years, then what we may do is we may supplement that with some area information just to sort of build a base.

Then as we move forward through time, in essence what we've been doing since 1997 is what the actuaries call an exponential smoothing approach where we would take basically 90 per cent of your prior year's average and then add 10 per cent of your current year's production and then whatever that calculates to drives your yield basically for the future years.

What that tends to do is over time, years that have gone by count less and less in your yield history so you get a bit of a trending. But because we never drop a year off any more, like the old 10-year averaging used to be, then you also tend to get a stability factor as well.

So you get trending but you get stability and then you get . . . If I can, this year's been an excellent example of that. We're getting bombarded from the Northwest, for example, where people are saying, stability; I want stability in my yields because I've got some zeros here. And then we get other parts of the province where gee, you know, let's use a three-year period or something because, you know, I had three good years or whatever. So that the methodology we do is always going to sort of strike a balance somewhere in the middle.

We get the trending aspect, but it does put a significant emphasis on stability so that when we get the production wrecks, like our history shows we do so often, that people's coverage doesn't go . . . you know, entirely get destroyed.

Now in terms of coverage, I guess I would also offer the comment that when we've talked to producers we have to try and understand what the question is. A lot of times producers basically have commented to us that they're focusing on the coverage per acre as opposed to the bushel guarantee per acre.

And then we get into the discussion that it may be a price-related problem more so than a yield-related problem because, you know, I go back to, say, 1996 as an example because I was using this in a presentation the other day. You know, we've got \$8 a bushel canola and then you compare that to, say, I think it was the year 2000, and you got \$5 a bushel canola, it makes a huge difference on the insurance value that we're carrying and it's a function of price, not yield.

Mr. Nystuen: — If I could add to that. One of the other things that we're constantly trying to understand in the data model is if there are other assumptions and biases within that that don't reflect accurately what is occurring within the system, okay.

We've been gathering data for a number of years and we think we've got a sound enough data case to make to the actuaries and we've been making that case. We don't have final sign-off yet, but we are hopeful that we'll have it for this upcoming year. And it's this. We have changed farm practice significantly in the last two decades and gone to continuous cropping, okay.

In the early days of continuous cropping, it was all about understanding moisture. And so if there was enough moisture, you planted another crop. But you may have left yourself in a soil nutrient deficit, okay — in other words, not enough phosphorus, not enough nitrogen. With our soil testing we now find that we can essentially replicate, but for trash content, the conditions of both moisture and nutrient balance in a soil. With zero till and conservation tillage, we have a number of people who are now able to reproduce summerfallow yields on stubble crops, okay.

Within the data model of Sask Crop Insurance, one of the assumptions is that you have this actuarial data that Doug just described and how you do the . . . you know, 90 per cent is your average forever in the past, and then you take 10 per cent of the

current year and that's your new number.

There is a assumption in the model that says stubble yields are 70 per cent of summerfallow. Okay? We've gone across soil zones and regions to try to prove that out in actual data and the answer is, that doesn't hold everywhere. There are crop districts where that is indeed the case. There are others where it has a correlation of .8, .85, .9, .95, 1.0. Okay?

We're trying to do a data restart so that summerfallow/stubble bias is out of the system and we think we've got the data to prove to the actuary that it's sound and that it's not just, let's say, good creative insurance. Okay? And so if we can get that sign-off, we intend on implementing it in 2003. And so in your region, in fact, it may be a case where you won't have, you know, historical yield for lentils. Maybe it's 20; your coverage is 70 per cent of that; but if you're growing it on stubble, it's 70 per cent of that. So you end up with a coverage of 49 per cent of 20 bushels. And so you're at 9.7 and you say that's ridiculous. Okay?

We think we can correct that, but again there are regions where that is the case — where you can create the best nutrient balance but you're still in a moisture deficit and so there is that ratio. Okay? So we're trying to make it more realistic. And if we can get that in place I think the kind of echo that we're hearing from you about, you know, it's not real, should dissipate significantly.

Mr. McMorris: — Thanks. I certainly can understand, you know, on my earlier point about yield guarantee and as we want to it to go up faster, there's other areas that don't want it to drop down quick, quickly, you know. And I certainly understand that.

But you did answer the second question that I did have and it . . . in our . . . again, and I'm speaking from the area that I represent, especially southeast of Regina, is that the yield guarantee on stubble has always been . . . if you are saying 70 per cent of the summerfallow guarantee, you'd have a hard time tracking summerfallow bushel yield in our area because there is so little of it.

I mean, and it's interesting that you were saying that in our area it may be a one-on-one — that you produce as much on stubble as you will on summerfallow. And I would even question that. I mean, we're . . . I would say we're producing more on an average on stubble crops than we ever did on summerfallow.

The whole issue of the Kyoto and carbon sinks and all that enter into it, too. And a person, through crop insurance, is penalized in a way to be growing stubble crops all the time because your yield guarantee is just not . . . as you said, it's 70 per cent of what summerfallow is.

And it even compounds itself when you start looking at a lentil crop as a stubble crop— growing on lentil crop . . . growing on lentil stubble. And you're looking at your wheat guarantee and you're saying, geez, I'm growing this on a stubble but it's a lentil stubble and I'm not getting any benefit from that at all which, you know, is really tough.

And I guess maybe that's why I would say . . . and I can only,

you know, speak anecdotally, and in our area, is that the crop insurance program is not meeting all the needs of what producers are looking at in our area. And I know I certainly agree with you though if you would travel around the province in the different soils and weather conditions, I mean it's not maybe typical . . . atypical to our area.

Mr. Nystuen: — The last evening I was in Prince Albert and met with about 35 producers from a production club. And so we're rolling through the issues. The one that we've just described is one of them. And so we've been doing work on it to build the data model.

There's one that I still have on my to-do list for Doug in crop insurance, and we haven't resolved it. We have a disagreement which is about soil classes, you know the A through M. A number of producers . . . And again on our farm we would find that the difference between a K and an H is no different. That would be our view.

Trying to show the data model that whether or not soil classification indeed is a predictor or is it more of a management issue as a predictor of yield — don't have the data to prove Doug right or me right, but that's one of those other items that we're trying to sort through, so that essentially if you get to a data model that says you're guaranteeing or you're insuring what you get. Not some arbitrary measure that may have been relevant at a point in time when you didn't have data versus today.

Mr. McMorris: — Just one final question I had and it was more of, I guess reflective of this year — and it wasn't so much in our area — but the whole issue of grasshoppers. And it was interesting hearing on the radio today that 35 below today isn't going to affect the grasshopper situation that we may be encountering next year. You thought maybe there would be some benefit of a day like today and that isn't one of them though, unfortunately.

But the whole issue, and you were talking about, in your presentation about proper farming practices . . . I forget the exact terminology in the crop insurance contract because it's been brought up different times.

And there certainly was a lot of question from producers this year in drought areas that were being questioned on their farming practices. And one of them was on the issue of grasshoppers, why they weren't spraying for grasshoppers in a crop that the grasshoppers had a hard time finding something to eat.

And you know the question is, why weren't you putting \$10 an acre to save what little crop that you did have there? That little crop wouldn't have paid for the \$10 an acre for crop . . . for insecticide.

And so I guess I would be very interested in hearing from Crop Insurance your rationale, your . . . you know, how you come to those decisions when you're dealing with what is . . . is it prudent farming practices? I forget. There's a couple of terms that I know I've been . . . that have been thrown at me a couple of times. I mean, how can they say this isn't a proper farming practice, you know? And, you know, the example, it can be

grasshoppers, but it can also be growing chickpeas and the amount of disease in them. And I've sprayed them four times and the crop is half gone and I don't spray them the fifth time, does Crop Insurance find me in default now?

And so without me going on with more examples — I mean, I've used the grasshopper one and the drought area, but it's also relevant in an area such as ours where chickpeas and disease is, you know, very commonplace — what is acceptable farming practices and what isn't, according to Crop Insurance?

Mr. Matthies: — Mr. Chairman, the way we tend to approach that is we try to find out what is the cause of loss in the particular field. And when you have issues like grasshoppers, for example, one of the things that we use as a tool in our decision-making process is we try very hard to determine what is the benchmark in the area.

So we look to the notion of what did people in the area do. And very . . . you know, you'll find the whole continuum. You will find situations where everybody sprayed except for a couple. Those are easy because then, why didn't you spray? Then you find the ones where virtually nobody sprayed, and that is also reasonably easy. And then you get the middle zone.

But basically we're trying to determine what was fair and reasonable at the time. And so we rely on the experience of our adjusters in the field who are going through the area during the course of the growing season, their contact with other farmers in the area to determine what they're doing, and we also look at the equity principle that I discussed during my presentation.

So, for example, if we have two producers, same yield guarantees, one pays . . . or they both pay the same premium and they both have the same grasshopper problem. If one producer chooses to spray and try and control his problem and the other chooses not to and just see what happens, at the end of the day, I think it's very important that the guy who tries to save his crop and give it the best chance doesn't end off worse financially than the guy who sort of sat back and said well, what happens, happens.

So that's an important consideration for us as we're trying to determine in this circumstance, in this area, what is the right approach to do. So what we have tended to do with the grasshoppers, for example, last year is we said okay, the trends that we saw were in the areas where the grasshopper survey showed that the area was either a severe or moderate infestation level. Most producers were spraying so our approach was then you should be spraying at least once and if you're not we're going to reduce your coverage or reduce your insurance claim by the cost of the chemical application for spray because that seems to be the minimum norm for people in your area.

As you got farther away, for example, when you got into the light infestation areas, then you found the circumstance where fewer and fewer producers were spraying and so then we would tend not to apply an uninsured causal loss. And that was kind of how we were approaching the grasshopper issue and it's the same thought process and mechanism we go through on whatever the causal loss is.

The chickpea disease issues, you know, the province has gone

through a tremendous learning curve in figuring out how to grow that crop. We went from I think 30,000 acres in the province in 1997 to 1.2 million almost in 2001, and there was a huge learning curve that we had to go through. And so, you know, now that knowledge base is there but we paid for a lot of it.

Mr. McMorris: — One final question or one final comment I guess, then. Regarding the, you know, using the example of two farmers, one that sprays and one that doesn't spray. I realize that it's a bit of a . . . it would be a hit for crop insurance on that year but again with the yield guarantees, I mean that good farming practices will show up in the yield guarantees. I mean the fellow that sprayed would hopefully have a higher coverage next year compared to the fellow that didn't spray.

I mean that's, I really would think, would be the check and balance as to whether the person should be punished for spraying or not spraying. It's on their going forward average which, as I already mentioned, I don't know, it fluctuates sometimes as quickly and I realize why it can't but that would be the, you know, the punishment for poor farming practices, is the lack of coverage as opposed to Crop Insurance penalizing them for that year for the \$10 an acre.

Mr. Matthies: — Well I think you've hit the same points that we get to when we discuss with farmers. It's how quick do you see those adjustments through the coverage. And if you see a farmer who invests that 7 or \$10 and then salvages his crop and he gets a much better yield, certainly you will see a coverage difference.

I guess I was trying to use an example where if they both ended up losing the crop, financially one is better off at the end of the day because he did nothing, but he . . . You're always . . . It's difficult when you're playing hindsight versus you're trying to make that decision on the day and you don't know what, you don't what tomorrow will bring — you don't know if the rains will come or whatever.

So for us it's important to try to determine when the peril was there, when the grasshoppers were little, for example. And we're more concerned with the small grasshopper than . . . You know, by the time they reach maturity and they blow in on the wind, well you're toast. You can't, you really don't have much choice. But when they're small and you had the chance to control them and you don't know what the rest of the growing season is going to turn out, what did you do and why? And those are the things that we look for.

Ms. Jones: — Thank you, Mr. Chairman. I'm interested in some comments I believe that were made by Mr. Nystuen when he was responding to another question. And that had to do with the 60/40. And you talked about the 60/40 and then of the 60, there's another 60/40 applied.

And so I wouldn't mind if you just kind of go through that again and tell us if, and if so, how this new 60/40 plan of the federal government compares with how it used to be and in effect, what their decisions, what effect they have on both the producer and the government as a premium-funding entity.

And so if you'd just kind of go over that whole business again. I

know *Hansard* will come out but usually it's a few days later in committee meetings than our daily thing. So if you could just kind of run through that for me again please.

Mr. Nystuen: — Okay. And let me start with the story here. One of the things that we have diligently been working on in this last round of safety net — not just in Saskatchewan, a number of provinces — is that NISA is a stabilization program. Crop insurance is absolutely the pillar program in the Prairie region. It should get funded first. NISA gets funded second. Okay. So if there happens to be a shortfall in federal revenue, you deal with it through the NISA program rather than crop insurance.

The whole rationale is to get appropriate government premium amounts into the crop insurance program so you can offer a better insurance. If you do offer a better insurance, the likelihood of claim through a NISA is diminished. Okay. That's the strategy.

We have made that argument effectively enough that the federal government in their new proposals has come back and said, okay we're prepared to try that; if we do though, this is how we will do it. So in other words, they come with a prescription. Their prescription is really one that says, our strategy in safety nets is one of 60/40, and essentially 60/40 in two fashions — between government setting money aside for the industry and the industry setting money aside. Okay.

In crop insurance, how that plays out is it said our methodology for the funding of the entire program would see governments fund 60 per cent of the premiums in crop insurance and farmers fund 40 per cent. Okay? And then, within the government's share, again the ratio is 60/40 between Canada and a province; in our case, Saskatchewan.

Now in doing that, one of the other things that we think we have done — and we're not certain that it's concluded — is also got the federal government to up its commitment to crop insurance. Okay? So in fact, they put more money to the program and substantially more money to the program than they have in the past. And so, that also gives us a base to offer a better insurance program. Okay?

Ms. Jones: — And in effect then, because the federal government has agreed to up their portion and the portions are 60/40, they expect us to put in 40 per cent of their 60 per cent.

Mr. Nystuen: — Of their 60. Yes.

Ms. Jones: — Then the effect on the provincial treasury or the . . . Yes. Well, the crop insurance premiums are in effect funded by the treasury, right, our portion. Then what effect does that have? That means that we are then, because the federal government has agreed to put more money in, then the provincial government is putting more money in. Is that a reasonable conclusion or . . .

Mr. Nystuen: — In the past — and I'll use 2001 as an example — I think our total funding to crop insurance was over \$100 million. It's something like 106 or 109 million. The federal contribution was 87.8 or something like that. So they can make a substantial improvement in their allocation to crop insurance

in getting to a 60/40 ratio between us and them with regards to the funding in that program. Okay?

Ms. Jones: — Okay.

Mr. Nystuen: — The final agreement is still not in place. And so, until we know exactly what that is, I can't describe to you what their number is and what our number is.

Ms. Jones: — All right. That helps. Thank you. Thank you, Mr. Chair.

Mr. Prebble: — Thank you very much, Mr. Chair. I have questions in three areas and the first relates to the whole question of collection of weather information at the local level. And I take it from what's being reported to us today, Mr. Chair, that we have . . . that we're improving our data system, our data collection system. And basically we're able to collect data now within a radius of 40 . . . 40 kilometres of the average farm, is that sort of what we're looking at?

Mr. Nystuen: — The weather station and 40 kilometres around the weather station, yes.

Mr. Prebble: — Right. Are we looking seriously at a mesonet system that would take us to a more decentralized kind of data gathering system and that might be integrated with other departments like, say, the Department of Highways, or that might be available to private users so that we could create a more decentralized data collection system on weather that would be . . . where agriculture would be the real foundation — and obviously crop insurance would be a big part of that — but where there would be potential access for other research organizations, other organizations having an interest in data, other provincial departments like the Department of Highways? And other jurisdictions have done this in North America. And I'm wondering if we are looking at this in a serious way and sort of where we're at in that planning process.

Mr. Nystuen: — Yes, there's a few interesting elements about mesonets but also the whole model of operating insurance. And I mean one of the things that we would describe through crop insurance is that we are moving slowly on a weather data gathered system for providing insurance rather than the traditional structure which is yield data, historical yield data, as the proxy for coverage, okay.

And let me describe some of the potential scenarios of how we might operate insurance, and then I think it's easy to back into why a mesonet would be a good piece of infrastructure.

In our current structure, when we go through elements like the World Trade Organization and the description about what is an effective safety net, Canada — through our national government — adheres to some strategies and conventions with regards to farm support structures, okay, for crop insurance.

One of them is essentially using historical or accurate data on yield. One is about coverage levels or how much risk that they will assume and underwrite. And a third is the capacity for trade distortion, and so it means market prices. Okay.

One of the challenges that we have had from our agricultural

community is one that says, oh yes, you do the multiplication — and we've had an example today, 10 bushels an acre times whatever, and so I come up with a number that doesn't even cover my costs, okay. So it's an inadequate program. Well partially that problem is a function of the conventions Canada has agreed to, and how they calculate through an insurance model, okay.

We have been trying to work on models that disaggregate or separate the issue of price and yield and then use separate proxies to do insurance, okay. An example we have is we run a forage rainfall, okay. Where a person can go and insure . . . I think last year the number was \$10 an acre or something like that. We have new insurance coverages for this year. The payout is all a function of whether or not you get rain, and if you get a certain amount of rain, you'll trigger a quantity of payment.

The future where that would go is one where, because it's not related to production but to a non-influenced characteristic like rain, you could offer \$1,000 an acre worth of insurance because all of the payments are triggered by events that are completely outside of any individual's control; you're using data, okay. And therefore you can create structures where a farmer is in a position where he could say, well I need to cover for \$150 an acre or \$200 an acre, and my perils are lack of rain or grasshoppers or some of those sorts of elements. And if they don't occur and I get no crop, then I get the money, okay. So it's a different way to offer insurance.

One of the reasons why we have been moving down this pathway of data gathering systems is so that we can create structures like that, okay. One of the benefits is to be able to offer insurance products that are more sensitive to costs of production, but are not anywhere in an abrogation of trade rules, okay. And because they wouldn't be, Canada would be prepared to jointly fund them between us, and them, and farmers, okay. So you'd be able to offer them at a competitive price . . . The development of a mesonet is expensive. Okay. And so we've been moving step by step. We went from — I forget how many sites — maybe 80 last year. I think we've added another 25 sites for this crop year, trying to bring this in closer.

When you get to specific crops that are more intensively managed, where relative humidity and diseases are a function of the humidity in the air, you would bring in a mesonet much more quickly. Manitoba have done this in a couple of their intensive cropping regions for vegetables and so on. And that also would be something that we would look for in a structure as we move forward.

But those are the ways that we have been trying to fund it out of our administration costs of crop insurance. So we've been able to make small steps as we go forward. And we're going to . . . Our intention is to build up this system through cost-effective user demand. In other words, not build it all and then say, well I hope somebody uses it to insure. But in fact you build it as clients use the system and go about it in that fashion.

So it's . . . I guess from our perspective it's a way to get there. It's a way to finance it when there isn't huge amounts of resources to fund these sorts of activities and to make it

sensical.

Mr. Prebble: — Mr. Chairman, I want to thank our deputy minister for that answer and just say that I hope we will . . . I'm glad we're moving in this direction. I hope we'll continue moving in this direction. And I hope we'll look for opportunities to work with other partners in building this system because I think it's going to be difficult for agriculture to do it alone.

But it seems to me that we have a number of natural partners at both the federal and provincial level, including provincially, the Department of Highways. It seems to me it would be a very natural partner because obviously along our entire road network, they will have an interest in knowing local weather events as they're occurring and a computerized system would be very useful in that regard.

But I think we also have the potential of private-sector business clients. And we also have the potential of interest from federal departments and maybe educational institutions as well.

And I think that an integrated mesonet system becomes more portable when you've got an array of users. In the same way that we've . . . you know, a wide array of users makes a high-speed Internet system or a digital cellular phone system more economically viable.

So I would just like to encourage that kind of approach to this. I don't know if our deputy minister has any response on that, Mr. Chair. But I have another question but I'll just pause in case there is a response.

Mr. Nystuen: — I guess the challenge that we have in building on a mesonet is that we have a huge area that we're trying to cover off. I mean we have 60 million acres of agricultural land. Many regions who have done it, have done it on a more localized basis. So they might have taken the same amount of capital that we've expended and just condensed it into a smaller region, and so that makes the system that much more robust in a small period of time. And that's one of the challenges that we're dealing with.

Mr. Prebble: — I have a second area of questioning and that pertains to organic producers and what kind of crop insurance coverage we're now offering them, sort of what changes here have happened over the last few years, And we've got . . . Of course this is a growing sector of the agricultural economy so I'm just wondering if we can get a little bit of an update on coverage for those producers.

Mr. Matthies: — In terms of the program that we're selling right now, we sell a separate option for an organic producer. He can decide if he wants to insure under the normal program, in which case we would apply the normal farm policy or program management expectations around pest control, weed control, that sort of thing. And where an organic producer doesn't do it then we would have to make adjustments to coverage.

Or he can choose what we sell as an organic program, where we recognize that you're not going to be having the same tools available for weed control and pest management, that sort of thing. And essentially what we do is we offer a lower yield

coverage to recognize the lower yield expectation that an organic producer can get. But then we also balance that with a higher commodity value to recognize the premium that they can receive in the marketplace for their product.

We have seen some significant increases in the participation in our organic program in the last six years. We've gone from, I think, 10,000 acres insured six years ago to about 100,000 acres insured last year under our organic crops program.

We had talked with members of the organic industry a few years ago to try and identify what they would like to see in moving the program forward. And I guess the message we got about five years ago was they were trying to sort out certification issues between bodies and that sort of thing, so they said come back.

We have been back to them this past year and we have some items, I guess, on the drawing board in terms of potential enhancements for the program but at this time, I guess, they're unannounced. I'm not sure . . .

Mr. Prebble: — But potential enhancements are being seriously examined?

Mr. Matthies: — Yes, we are. As a matter of fact I met with a group out of Swift Current last Friday and we were discussing them so we . . . Our approach in rolling out any program enhancement is we look for the support of industry. The message that I like to use, and I think quite correctly use, is that virtually all of the changes that we have made to the program over the last 40-plus years come from farm groups, so as we get their feedback and we work with them on policy development and we bounce them off the interest groups, before we roll it out.

Mr. Prebble: — Well that's good. Just one other question, Mr. Chair, and that relates to global warming and how it's anticipated that this will impact on — well obviously on agriculture but specifically on crop insurance.

It seems to me that we've got a significant change potentially in the threat of drought. And we're seeing this on a worldwide basis. This is not just a pattern that is limited to the Canadian Prairies but we're seeing global drought emerge in a much more severe kind of way and we could be looking, according to the various research councils that are examining this issue around the world, at this accelerating in a significant way. And that I think it's fair to say is the view of the Saskatchewan Research Council — people who work on this file.

I'm wondering what kind of communication there is between SRC (Saskatchewan Research Council) and Crop Insurance on this and what . . . how you see Crop Insurance adjusting its premiums and its policies to address the whole question of the potential for more prolonged drought and the threats that global warming poses. And I guess implicitly what I'm saying here is that the 40-year cycle, you know, may shift on us, unfortunately. And I'm wondering sort of what kind of a planning process we have underway to address that.

And that's a huge challenge for you so I'm not expecting that you have all the answers but I wanted to put that question on the

public record because I think it's an important point for committee members to discuss.

Mr. Matthies: — I think in offering some initial remarks, we work with the Sask Research Council on a number of different files. But specific to the impact of global warming, I think the first thrust for the department is not on the insurance file but in terms of the management, the technology that we're using in farming today. And that sort of drives public and private research into things like seed stocks, shorter term to maturity varieties, that sort of thing, better drought tolerant sort of seed stocks.

And that's where the primary focus or the initial focus tends to go to — not on the insurance side, but on how do we continue to farm and make a living and grow crops if there's going to be changes in these cycles. So that's where sort of the first measure of reaction, if you will, goes to.

And then, from the insurance side of it, the responses in general terms are sort of twofold. Number one, you're monitoring and keeping pace with well, what is happening now with our loss and our growing experience with possible changes in weather cycles and with the technology that's being applied. Are we seeing greater losses or are there changes that are coming on that are offsetting those potential impacts? So you're looking to see if it fits in that regard.

You're also looking in terms of dealing with your actuaries in terms of . . . when we set rates there's a decision process that goes through and says, do we need to build anything into rates to specifically address certain threats that may be out there. So one of the things that is on sort of the checklist of things to think about, is there a separate piece that may be required around global warming or that sort of thing? It's not, at this point, identified as a separate load, but the decision process is laid out in the rating methodologies.

So subject to whatever additional comments may be appropriate, I guess that's sort of where I would offer some thoughts for committee members to think about.

Mr. Nystuen: — Just on sort of the whole issue of global warming and how you manage a crop insurance program, I mean, clearly the strategy within a crop insurance program is smoothing out yield variations through time. If there is a long-term trend to substantially lower production, the data model will catch that up. Okay. If that in turn ends up having substantial deficits, the actuarial model loads those into premiums. Okay.

There are some risks that exist within that insofar as you may find that all of your customers, because crop insurance is voluntary, leave. Okay. You may have a year or a series of years where you have substantial payouts and, as a result, the actuarial model says well, premiums go up, they go up. But if you're getting to a point where the value of the premium versus the deficits and loads suggest that it is not in a farmer's best interest any more to insure because they're paying so much, which really is retrospective — in other words, recouping past losses. Those are fundamental, difficult policy choices for the funding of crop insurance. Okay. That is a risk. We are not trying to solve that within the current data model for a number

of reasons. One is that we may in fact make the future happen because we're trying to predict that. Okay? In other words, you may chase all your customers away because you're trying to protect yourself in the future. That has not been the bargain between federal government and the province and farmers, and so we are not superimposing that into the system.

I think one of the things that we need to be cognizant of is, as global warming occurs, that's a global concept. What the specific impacts are within our growing region is a separate item. Okay. We have seen in the last number of years Alberta have substantially worse crops, Manitoba have substantially better crops. Okay? Within our region, the west side doing substantially poorer, the east side having crops better than they have had for a long time. Okay?

And so there are some readjustments within the system. How we decide to deal with that in a policy basis I think is one that will take some considerable discussion and debate, okay, because we have a data model that is smoothing, okay? It's 90 per cent backward looking so your yield, if it's falling, will fall slowly. If your yield is climbing, it will climb slowly. Is that an appropriate policy? Will our clients all of a sudden decide it is or isn't? Okay. If it's going too slowly on the east, they may say it's a bad policy and I'm leaving. On the west they might say no, it's a great policy and I'm staying. Okay. Those will be some of the issues that we are going to have to look forward.

Now one of the other items about this, and it goes back to your question about mesonet, is that one of the predictors of success or loss in crop insurance is subsoil moisture. Okay? It is one of those things that you can see today and have some relevance because part of our crop is captured by in-season rains, but if you have no subsoil moisture going into the season, those rains must be perfectly timed. Okay? And so that is another potential tool that you add to how you provide insurance to, again, smooth through time.

And so we've got a number of those items that are all in the mill, but again at the planning stage it's . . . these are concepts. How would we sort them through so that we do have a crop insurance in the long term?

Mr. Prebble: — Mr. Chair, that concludes my questions and I want to thank our officials very much for those responses.

A Member: — Thank you.

Mr. Huyghebaert: — Thank you, Mr. Chair. I can assure you this morning I wasn't thinking of global warming when I tried to start my car.

I want to return just for a moment to the organic crop insurance so I'm glad the member from Greystone brought it up, but I would just like to go a little further. I think you've answered most of what I wanted to hear on it. But when we look at acceptable farming practices, is that taken into consideration with organic producers also? And I think immediately about buffer strips for grasshoppers as an example. Is that in fact taken into consideration, acceptable farming practices for organic producers?

Mr. Matthies: — Certainly that's what we look to. Obviously

there's a different list of tools that an organic producer has, but when it comes to grasshoppers you're absolutely right. There is widely, freely available public information that provides guidance, for example, on how to deal with grasshoppers and it deals with crop selections, crops that are less susceptible. For example, if you've got lentil stubble or if you're seeding lentils in a highly, high infestation level, that's a risk.

But use of buffer strips around crops is one of the recommended practices for organic producers. And if you've done that then we would go, in terms of a loss situation, check — that's a good thing.

Mr. Huyghebaert: — Good, thank you. I have one last question, Mr. Chair — and I'm not sure if it's the officials or auditors that would address this — and it just caught my eye when I was going through the reports and it comes under the heading of bad debts. And just looking at the three-year history, I see 3.2-plus million, 150,000-plus, and 559,000-plus in successive years, but I can't find anything that explains what bad debt refers to. And I'm just wondering if someone would enlighten us on what this bad debt is.

Mr. Matthies: — Just to offer some comments. Producers are invoiced their premiums basically in July of each year. Coverage is effective from the . . . basically April 1, if you will. We invoice them in July, and if they haven't paid their premium by . . . in this past year, for example, by the end of October, then we start putting interest on it.

But basically we are prepared to extend coverage without having the bill paid, if you will. And when we get to the end of the crop year if the farmer still hasn't paid his bill, then we say you're not eligible for insurance in the next year. And then so we carry that debt forward and then we attempt to collect it and hopefully get the producer back in a future year.

There are circumstances however where producers choose not to pay or go out of business or whatever, and so some of the premium that we have billed from prior years we end up having to allow as an uncollectable item.

Mr. Huyghebaert: — Thank you, Mr. Chair.

The Chair: — Thank you very much, Mr. Nystuen, Mr. Matthies. Thank you very much, you and your officials, for being here with us today.

I want to thank you again for your presentation. I thought it was very informative. It certainly is helpful for someone like myself who doesn't deal with the crop insurance issues on a day-to-day basis like some of my rural colleagues. It was very helpful and I very much appreciate that. And also to get some sense of where it is that we might be going with future premiums. I gather that that's something that will be, I guess, rolling out in due course. And to get some background and understanding that, I really appreciate that. Thank you very much.

Would someone move that the Standing Committee on Crown Corporations conclude its review of Saskatchewan Crop Insurance Corporation's annual reports and financial statements for the years ending March 31, 2000, March 31, 2001, and March 31, 2002? Ms. Jones, you'll move that? Is that agreed?

That's agreed.

May I suggest that we take a 15-minute break and come back here about 5 to 3. And then we're going to go into the matter of payee information.

The committee recessed for a period of time.

The Chair: — By way of background, in the 2001 Spring Report, the Provincial Auditor examined a number of issues with respect to the Crown Investments Corporation.

And one of the recommendations in that report was that the CIC and its subsidiaries should publish a list of persons — for example, employee suppliers who have received money from them and the amounts the persons received — following the Assembly's current disclosure requirements or seek direction from the Crown Corporations Committee on alternate disclosure requirements that will achieve legislators' objectives for requiring this information.

And that issue, I think, engendered a fair amount of debate, especially given sort of competitive issues that Crowns were raising. And therefore, it was decided to refer this matter to the Provincial Auditor and to CIC to see if they could agree as to how this disclosure of payee information might be dealt with.

And we have now received two reports, one from the Provincial Auditor and one from the Crown Investments Corporation, where I believe that they do not necessarily agree or are of one mind in this matter and that's where it stands. And, Ms. Atkinson, I turn it over to you.

Ms. Atkinson: — . . . matter regarding chapter 11, Crown Investments Corporation, of the 2001 Spring Report of the Provincial Auditor regarding what information government agencies should disclose and to whom, be referred to the Office of the Privacy Commissioner . . .

The Chair: — That's the motion.

Ms. Atkinson: — . . . for his advice and reporting back.

The Chair: — Any discussion on the motion?

Mr. Wall: — I don't think it has to . . . Thank you, Mr. Chairman. I don't think it has to sort of be in the motion. But would any of us here have an idea as to the caseload over there? We hear sort of through the grapevine that it's a busy office, potentially. And so do we even consider asking for a date by which we would expect that advice?

The Chair: — All I know is that the Privacy Commissioner is an officer of the Legislative Assembly and my sense is that when he receives a request from a committee of the Legislative Assembly, that he'll want to attend to it with dispatch. You know, he doesn't have any agenda that's laid down by the government or anyone else as to his reporting so . . .

Mr. Wall: — In my understanding, as you have I think said informally before the meeting, Mr. Chair, is that the current reporting procedure will stand, if you will, in the interim. And so, you know, I think that's probably fair.

The Chair: — Yes. We would concur. Yes. Any further discussion?

Then the motion that we have before us is moved by Ms. Atkinson:

That the matter regarding chapter 11, Crown Investments Corporation, of the 2001 Spring Report of the Provincial Auditor regarding what information government agencies should disclose and to whom, be referred to the Office of the Privacy Commissioner for his advice and recommendation. The Privacy Commissioner shall report his findings to the Crown Corporations Committee as soon as possible.

Is that agreed? Agreed.

Thank you very much. And look forward to seeing all of you tomorrow morning at 9:30 a.m.

The committee adjourned at 15:07.

