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Honourable Ross Wiseman, MHA

Public Accounts Committee

Chair: Jim Bennett, MHA

Vice-Chair: Kevin Parsons, MHA

Members:

Keith Russell, MHA
Eli Cross, MHA
George Murphy, MHA
Tom Osborne, MHA
Calvin Peach, MHA

Clerk of the Committee: Elizabeth Murphy

Appearing:

Office of the Auditor General

Terry Paddon, Auditor General
Sandra Russell, Deputy Auditor General
Scott Walters, Audit Manager

Department of Natural Resources

Jim Evans, CEO, Forestry & Agrifoods Agency
Keith Deering, ADM, Agrifoods Development Branch
Dave Jennings, Director, Production and Market Development Division

The Committee met at 9:00 a.m. in the Assembly Chamber.

CHAIR (Bennett): Good morning.

This is a hearing of the Public Accounts Committee of the Province of Newfoundland and Labrador. I am the Chair. My name is Jim Bennett; I am the MHA for St. Barbe District.

Momentarily I will have the other members and the witnesses introduce themselves. Most of the witnesses have been sworn at this point, although some witnesses will still need to be sworn.

The matter we are inquiring into this morning has to do with the Report of the Auditor General, 2014, Part 3.5 of the Cranberry Industry Support. I understand the departmental witnesses, if not all, have mostly come here from the West Coast of the Province – West Coast of the Island, at least. We will hopefully be able to have this matter concluded this morning and let people continue with their travel plans, and maybe even enjoy some of the projected record temperatures, I understand, since 1890; although we may be more comfortable in here.

So without further ado, I am going to ask the members and the witnesses to introduce themselves, and then we will get on with the administering of the oath and get going.

MR. OSBORNE: Tom Osborne, Member of the House of Assembly.

MR. K. PARSONS: Kevin Parsons, Member for Cape St. Francis.

MR. PEACH: Calvin Peach, Member for Bellevue District.

MR. CROSS: Eli Cross, Member for Bonavista North.

MR. MURPHY: George Murphy, MHA for St. John's East.

MR. PADDON: Terry Paddon, Auditor General.

MR. WALTERS: Scott Walters, Audit Manager from Corner Brook office.

MR. EVANS: Jim Evans, CEO of the Forestry and Agrifoods Agency.

MR. DEERING: Good morning. I am Keith Deering. I am the Assistant Deputy Minister with the Agrifoods Development Branch.

MS RUSSELL: Sandra Russell, Deputy Auditor General.

MR. JENNINGS: Dave Jennings, Director of Production and Market Development Division.

CHAIR: I think we have two individuals who may not yet have been sworn. Ms Murphy, who is sitting at my right, is our Clerk, and she will administer the oath or affirmation, as the people prefer.

Swearing of Witnesses

Dave Jennings

CHAIR: We generally offer an opportunity to any agency or entity appearing before us if they want to provide us with initial remarks. They certainly do not have to, not everybody does it, but sometimes it helps bring us up to speed or to introduce the entity, the agency, or department to any viewers, any people who are participating, and then we continue with questions. It is certainly not mandatory, probably half do and half do not.

I would like to offer an opportunity to Mr. Evans or another to bring us up to date if you wish. It is your preference.

MR. EVANS: Yes, I will just very briefly, Mr. Chair.

I want to thank you for the opportunity to speak about our program here and hopefully answer any questions that come forward. If we do not have the answers here available we will certainly get the information back to you.

I will mention that one of our officials was supposed to be here today, Mr. Blaine Hussey, Manager of Market Development. He was called away to an emergency meeting of the

Chicken Farmers of Canada. He is in Alberta today, so he could not attend.

That is all I have to say very briefly.

Thank you.

CHAIR: Okay, thank you.

If we have no more questions, then I would like to begin with Mr. Osborne.

MR. OSBORNE: Thank you, Mr. Chair.

I do not have a great number of questions today, but I will ask some. There are only nine producers out of fifteen who availed of funding. The other six, did they not apply or just not qualify for funding?

MR. EVANS: Most of these questions I will try to answer myself, but a lot of them I will have to defer to either Keith or Dave, and this one I will defer to you, Keith, if you could.

MR. DEERING: Some of the producers who are eligible or set up for cranberry farming were not located within the Grand Falls-Windsor region, and some of the farmers had already developed their farms to the extent that they did not want to develop them any further. These would have been the two farmers we had set up in our pre-commercialization phase, our research and development phase. They had indicated they had gotten as big as they wanted to get.

As well, we had a farmer in Terra Nova who did not take advantage of the funding. So, most of the farmers who did take advantage of the CIDP were located in the Grand Falls-Windsor region.

MR. OSBORNE: The farms that were already in operation, did they seek funding and were told they did not qualify because they were already developed?

MR. DEERING: Dave, I do not know if you can speak to the details on that.

MR. JENNINGS: Sure.

No, I think there were two programs running concurrently there for a while. Certainly, anybody who had expressed interest in getting

funding from CIDP, they pretty much all were approved and did receive funding for that program, the ones that expressed interest in that program.

MR. OSBORNE: Okay.

I guess the underlying inquiry was, were any of the other six operations or producers put at a competitive disadvantage because they did not receive funding?

MR. JENNINGS: No, I do not think that is the case at all.

MR. OSBORNE: Okay.

In response to some of the questions from the Public Accounts Committee, the third response talked about exploring the possibility of a new program. Can you provide some details on what may be coming as far as a new program?

MR. EVANS: In our recent budget, there was approval for money for a new cranberry fund. We have not gone forward with that yet. We are waiting on a partnership arrangement with some outside agencies, and at this point we cannot reveal anything. We are optimistic that something is going to happen, but there is nothing definitive at this point.

MR. OSBORNE: Okay; and that is for this fiscal year?

MR. EVANS: The plan would be for – our proposal was for a five-year program.

MR. OSBORNE: Okay.

In question 4, there was funding being advanced to applicants without proper consideration for the guidelines. Can you elaborate on how that happened and what corrective measures are put in place to avoid that from happening with other programs that may be advanced by your department?

MR. EVANS: We acknowledge the findings of the Auditor General and, as always, we learn from the findings and concurrent action plans. In previous audits, our Growing Forward or our forestry diversification fund, we have developed action plans and procedures and guidelines to

eliminate any errors that occurred in previous programs.

I will let Keith speak to some of the details of what we have specifically done, but we have taken action and transferred it to any concurrent programs.

MR. DEERING: As Jim has mentioned, we have learned a lot from previous audits, and we are already set up, if there is another program, to implement some of the measures that have been recommended by previous audits of other programs. A lot of our funding programs are administered in the same way, so the checklists of things that need to be included in files tend to be the same.

If there is another program, I guess we are ready to implement the most up-to-date measures that we have. I guess one of the things that the auditor picked up on or perceived was the fact that funding may have been advanced without proper measures being taken on inspections and things like that. One thing we would have to say about that is when it comes to the cranberry program no money was advanced until the work was actually done. So, in fact, inspections and invoicing and things like that all had to be in place and the work had to be completed before the money would be advanced.

We acknowledge the fact that some of the things may not have been included in the file, but obviously invoicing and inspections and things like that did exist, otherwise the payments would not have made. Obviously, the work was completed or the payments would not have been made.

MR. OSBORNE: Okay.

I will address my next question to Mr. Paddon. The response just given, would you consider that to be accurate that the inspections, that all of the work was done, it was just a matter of perhaps sloppy paperwork?

MR. PADDON: It may not be incorrect. In our business we have a saying that if it is not documented, it is not done. So, for us, it is a question of if you do not see the documentation that is required then the evidence is not there that the work was completed. I guess it is

probably fair to say that based on discussions during the audit with staff at the Agrifoods Agency, the responses were that they were fairly close to the industry so that there was probably regular dialogue and regular visits to facilities.

At the end of the day, for us, it was probably more an issue of the documentation around the files and the process that would have been more problematic. Jim had referenced a couple of previous programs that we had looked at and the findings are not dissimilar from that. I do recall a previous hearing of this Committee where we kind of discussed that and the department had made commitments to new programs to beef up, for lack of a better word, their process in terms of ensuring that the program requirements were well documented and things were done and files complete before payments were made or approval is given.

I think there is a bit of an overlap on this program with some of the previous ones. So it would be unfair to say that this one should have been caught up from the recommendations of previous audits, but I think it is fair to say this potential new program, five-year program, we would think should benefit from some of the changes that they have talked about.

We were fairly comfortable based on previous hearings here and certainly some of the things we have seen in the responses here that I think the agency is acknowledging and heading in the right direction in terms of the process.

MR. OSBORNE: Okay.

As far as a program – there were no expenditures that had taken place that should not have taken place or payments that were made that should not have been made; it was just a matter of the paperwork being done.

MR. PADDON: We certainly did not make a finding that payments were inappropriate. There should have been more documentation or timely documentation, yes, but it would be a stretch to say that the payments were inappropriate.

MR. OSBORNE: Okay.

MR. EVANS: I just wanted to add to Terry's comments there. As an example, we were here

in front of the Committee on our Growing Forward program and some of those findings we have implemented in our Growing Forward 2 program and the checklist do include documentation, filing, to accommodate or to take care of all of those findings. In the future cranberry program, we would certainly have those documentations and checklists incorporated as well.

MR. OSBORNE: Okay.

MR. PADDON: Just to elaborate a little bit, sometimes some of our findings they might seem kind of minor or nitpicky I suppose some people might call them; but the way we look at it, program guidelines are designed for a purpose. It is taxpayers' money that is being spent, so the program guidelines and rules and regulations around it are all designed to ensure that you have the appropriate due diligence done before taxpayers' money is spent.

That is kind of the measure we audit against, is the guidelines that the department or the agency themselves have put in place. So the extent that they deviate from them, they are deviating from a procedure that somebody consciously said we should put in place for a reason. It is not to be nitpicky; it is to ensure that due diligence and appropriate spending of the taxpayer's money is met.

MR. OSBORNE: For sure. I think that the fact that we are here today looks at the importance of the findings of the Auditor General and then, in fact, I guess if we have been a little more nitpicky back in the 1990s, some of the Members of the House of Assembly probably would not have gotten in the trouble that they have gotten into.

While I believe the cranberry program was a good program, I think it is important that government programs follow the proper procedures and guidelines.

I have one final question on the program. There are fifteen producers right now. This is obviously a growing industry for the Province, an important industry for the Province. Do you feel that the producers either with or without the new program that is coming, are these producers able to continue to grow and market their

product successfully in the Province and outside of the Province?

MR. EVANS: Without a new program, my personal feeling – and I will let Keith or Dave speak after – is that some or most would continue and survive. Others with less resources, financial resources, may not. They may be amalgamated with some of the larger farms, but with a new program we feel that all of them would survive and prosper and grow.

MR. DEERING: The numbers that we had framed up when we initially starting contemplating a cranberry program when we were in the research and development stage, we kind of figured we could achieve 600 to 800 acres in ten years. We achieved the five-year target with the programs we had in place of 250 acres, but we also acknowledge that in the midst of all that we had to get to 500 acres in order to grow enough fruit to justify secondary processing, which is really where we need to be.

My sense is that the farmers we currently have working towards these goals – and each individual farmer, by the way, would need to get to about forty acres in order to achieve sustainability of their own individual operations to justify all the equipment that they need in order to survive on their own. Before they reach those numbers I guess they kind of depend on each other a lot to share equipment and things like that, but to get to a place where we can justify inviting investment from somebody on secondary processing, we need to grow enough fruit to basically get to 500 acres.

MR. OSBORNE: Okay. How close are we to that goal now?

MR. DEERING: We are about halfway there.

MR. OSBORNE: Okay.

MR. DEERING: My sense is that the current farmers we are working with, if we work with those folks to get to the forty to fifty acres that they each need individually to sustain themselves, collectively they will get to the 500 acres they need. Obviously, if we are going to get to 600 to 800 acres, unless these folks are going to develop beyond fifty acres, we will

need to look for some new entrants to get to that level.

Our target right now is to get to the next stage, which is 500 acres to justify secondary processing.

CHAIR: Mr. Parsons.

MR. K. PARSONS: Good morning, and welcome. It is a beautiful day. The hottest day of the year, I think, it is going to be.

I just have some questions, only a couple actually because I know in your previous answers we see a lot of similarities with what we talked about the last time you guys were here with the Growing Forward, with documentation and things on file and stuff like that, and you just explained.

There is one there that says project claims for four payments were not on file for \$200,000. Can you explain how that happened? It said the forms were not on file. The Auditor General found that the forms were not on file for four payments totalling \$200,000.

MR. JENNINGS: The fact is in every payment that is put forward there has to be a project claim form developed, and that project claim form has to be submitted to Finance for payment. In those cases of that \$200,000 and those four claims, there were project claim forms done and they were signed off by the appropriate official. Photocopies were not taken and the photocopies were not put in the file, is basically what happened.

Somewhere over in the Department of Finance there are copies of those project claim forms or the money would not have been put forward. So it is a paper issue there for sure.

MR. K. PARSONS: Yes, so it is a matter of getting things in order. Okay.

I want to talk a little bit about – I just heard Keith say about 500 acres to make it for secondary processing. How many farms do we have that are over forty acres now, producing?

MR. DEERING: I am not sure at this point, Mr. Parsons, that we actually have any.

MR. K. PARSONS: Okay.

MR. DEERING: We have a few farms that have been operating for a little bit longer than most of the ones in the Grand Falls-Windsor region, and they have learned to – through the various research and development that we have been doing, and advice we have been getting from folks who are growing cranberries in other jurisdictions – grow more fruit on their farms. I guess they have decided for their own reasons – and these are established farmers with diversified operations beyond cranberries. They already have the necessary equipment to sustain themselves and to achieve production with the acreages they have. Self-sufficient cranberry farmers who are into nothing else except cranberry farming, they will need to achieve the forty to fifty acres.

So, the short answer to your question is I do not think we have any that have achieved forty acres, but we do have a few that have gotten fairly close.

MR. K. PARSONS: I do not know much about the cranberry farming industry, only when I look at the commercials on TV and there are two guys stood up in the middle of a field up to their waist in water.

Are there a lot of areas in Newfoundland where we can farm cranberries? Forty acres seems like a huge area to me. Is it very difficult to be able to have areas where you can actually do cranberries?

MR. DEERING: There is an abundance of good arable land for cranberry production. I guess cranberry production has a lot of engineering associated with it. There is significant expense when it comes to drainage and irrigation and things of that nature, but basically to grow cranberries you need a sufficient wetland – of which Newfoundland has lots of – with adequate characteristics for cranberry production. We have identified more than enough area, without too much effort at all, to get where we need to be at 500 acres.

MR. K. PARSONS: Okay.

The future for the cranberry industry, it seems like it is a new – how many years have cranberries been grown in Newfoundland?

MR. JENNINGS: We started a research program back in the 1990s. The first thing that happened was we had to determine whether or not you could actually grow cranberry fruit in the Province. Work started back in the 1990s, through research and development, to see if we could. When we got to a point in small plots that we decided yes, we can actually grow fruit here, we engaged some potential farmers to start research and development farms. We started five of those across the Province.

Basically, from the late 1990s into the 2000s, we started getting into a pre-commercial phase where we started getting commercial operations into this. We basically have been doing this for about twenty years.

MR. K. PARSONS: Where do you see it right now? Are we on track? Hopefully, with the investment over the last five years, 500 acres was planned but there are only 250 actually in use. Do you see it on track? Where do you see the industry going?

MR. JENNINGS: I think if the programs that were initiated did achieve the goals they were looking for – we were looking for, basically with the funding we had allocated, about 250 acres or so. Our ten-year plan was to get to 600 or 700 acres, and we still could be on track to do that.

Right from the initial start of this whole idea of cranberry production, we realized for it to be successful in this Province there has to be secondary processing. We simply cannot just freeze fruit and ship it to Europe or somewhere like that. It is just not going to work.

We are kind of caught right now in the middle of a program to develop the industry to a fully commercial phase, but one thing we do know for sure is that the fruit we produce here is high quality. We can produce good acceptable yields that are commercial yields. So everything looks good for developing an industry in the Province.

MR. K. PARSONS: How many people would you say are involved in the cranberry industry, approximately? Would you have any idea?

MR. DEERING: In the construction phase, obviously, it is much more labour intensive to get these acres engineered to the point where they can produce cranberries. Up to this point, our estimate is there are about 250 to 300 people involved in that phase of it. Obviously when bogs are constructed, producing, and completed, the numbers are much less than that, but to get bogs engineered to the point where they can produce is quite labour intensive.

MR. K. PARSONS: Okay.

That is all I have.

CHAIR: Mr. Murphy.

MR. MURPHY: Thank you very much, Mr. Chair.

Good morning to everybody on that side.

Mr. Evans, I cannot remember the name of your marketing person.

MR. EVANS: Blaine Hussey.

MR. MURPHY: Blaine Hussey; I wish he was here because I had lots of questions for Mr. Hussey on the marketing component of it.

MR. EVANS: We can answer.

MR. MURPHY: Perhaps you might be able to answer a few of them.

MR. EVANS: Sure.

MR. MURPHY: The Auditor General's comments, number one, about the price of cranberries in the market sinking recently, I guess over the last couple of years, it has gone from, I think he quoted eighty-six cents a pound down to about thirteen cents a pound now. What is the present price that they are getting for cranberries in the market now?

CHAIR: Mr. Murphy, before we go there, please be sure to put all of your questions to the Committee, whether Mr. Hussey is here or not, because I think it would be unfortunate if you not ask useful questions, and then they do not get asked and the witnesses do not know what you are about to ask.

MR. MURPHY: Okay.

CHAIR: Even if you ask 100 questions and they say, we do not know, he knows. Then we can get that information because it would be useful, otherwise I think we might lose a lot from our review.

MR. MURPHY: Yes, and I wanted to find out some of these questions as regards getting some background to what the Auditor General was asking.

MR. DEERING: I will start the response, and Dave can finish it.

Just this past March there was a national cranberry conference held in St. John's. A lot of the producers from across Canada attended. They spoke about the cyclical nature of pricing when it comes to these types of commodities. They are already on the way back up. In fact, as of March the price was in the thirty cents per pound range. The experts who were at that particular meeting all projected that prices were going to continue to rise.

I guess Dave had a few more details that he wanted to comment on.

MR. JENNINGS: Yes, I think this question highlights the whole issue around whether we can get to having processing within the Province or not, because if you look at – if the product that we are going to put forward is a frozen IQF cranberry product out of this Province, we are always going to be at the whims of the world commodity cranberry price. That is not a really comfortable place to be, because if there downturns we have to live with those downturns. That is why we really want to get to a larger industry in the Province that can support itself with secondary processing. Making things like juice or dried fruit, or all these other things, increases the value of the product to us in this Province.

If I could just give you an example, around the same time that this Province started to get into cranberries, the Province of Quebec started to get into cranberries, and they have put a tremendous amount of money into that. They went from having, basically, a couple of hundred acres to the point now they have 8,000 acres of

cranberries in Quebec. Their cranberry industry is probably larger than our dairy sector – and they have a lot of processing in that Province. They make a lot of juice; they do a lot of different things with it because of the size of the industry.

I think if you look at marketing, if we are straightly just going to market frozen cranberry product, we are always going to be at the whims of the world market. If we can get into secondary processing we can be a lot stronger.

MR. MURPHY: That goal was 600 acres, right?

MR. JENNINGS: I beg your pardon?

MR. MURPHY: That goal was 600 acres where we will see secondary processing?

MR. JENNINGS: If we can get 600, because it is based on the number of pounds of product. When we initially looked at cranberries, we were looking at a good yield would be about 20,000 pounds an acre. You needed 500 acres so it would create a million pounds of product. If you can get to a million, million-plus pounds of product, you can justify some processing, and that is where we really want to be.

MR. MURPHY: Okay.

As regards the market demand for it, I am wondering about Newfoundland and Labrador expanding into the industry. I have just as much hope I guess as anybody else that this will be successful. I am wondering about the work that is ongoing. Have you been doing any monitoring? Of course, you obviously talked about the case of Quebec, but there are a lot of people getting into cranberries to the point that they might end up flooding the market and jeopardizing the industry itself. Would you have anything on that?

MR. JENNINGS: There are a lot of things at foot in the world right now around cranberry production. Certainly, overall there is an increasing demand for cranberry product.

The other thing that is happening is this primarily used to be an American business. The State of Wisconsin, the State of Massachusetts,

the State of New Jersey, were the big cranberry producers in the world. We are finding now, particularly in Massachusetts, a lot of the old established cranberry lands that are probably a hundred years old are disappearing. So while there is new acreage coming in, there is old acreage going out.

There is a big demand for land in those states. Cranberry land is worth more for other things than cranberries. So they are losing a lot of acreage in some of those states. The void is being created for more products.

The other thing is that the interest in healthy food and functional foods – and cranberries certainly is a very healthy fruit to eat and drink – is increasing demand for the stuff all the time. That coupled with other berry products. There is an increasing demand for all sorts of berries.

MR. MURPHY: Okay. So there is a pretty bright outlook right now as regards to that. That is great.

That is why I was concerned about the department's failure, I guess in this case, to oversee the development of the industry. So far this morning we have learned there are a lot of paperwork issues. Do you have an internal auditing process that you would go by to make sure that these rules now are going to be followed by and adhered to, or do you have that mechanism set up now? How is that going to work if you do?

MR. DEERING: I guess for the cranberry program, in the past we have not. Based on recommendations from audits of other programs, and as Jim mentioned earlier on, our objective is to get ourselves consistent. Because a lot of the programs that we deliver, they look alike. In this particular case, the main difference between cranberry and the other programs is that for cranberries we did not advance money for work. We only provided funding after work was completed.

I guess one of the checks we have included in our other programs is for internal auditing, and we have that with our Growing Forward program. So effectively, on a go-forward basis, if there was another program we would consider something like that for cranberries as well.

MR. MURPHY: Yes.

Given that the industry sounds so promising, why was only 15 per cent of the money ultimately disbursed under this program? Do you have any idea, any sense of what people might have been giving you as regards their assessment of the monies or anything? Are there any negativities that people were giving you, that they did not want the funding or anything?

MR. DEERING: No, effectively we were – at the time, even though we were early out the gate with this program, we found ourselves competing with other programs for cranberries that had much more favourable terms.

MR. MURPHY: Okay.

MR. DEERING: Shortly after our CIDP was announced, the federal government, through ACOA, had announced a program in Grand Falls that provided 90 per cent funding. Our cranberry program was 50-50. So logically, the producers who were eligible to apply went to the program that was providing ten-cent dollars, right.

MR. MURPHY: I think I would too.

All right, that is great.

With only 15 per cent, we still see the following administrative troubles, including problems with inspection, poor documentation, incomplete claim forms, and I guess in this sense too, poor follow-up so far. Would it be fair to note that the department was struggling to properly document this 15 per cent, that they would have been swamped had all the money gone out the door?

MR. DEERING: We have learned a lot through this audit; we have learned a lot through previous audits. One thing that we have learned is when we prepare guidelines for future programs we have to build in flexibilities to allow ourselves to be realistic when it comes to farming activity.

To give you an example, the specifications on the claim forms required that berm depths had to be a certain depth, bed widths had to be a certain

width, but the reality is that in farming, especially in open farming, if a moose walked across a berm and compressed it or lied down on it or something like that, and a measurement happened to be taken on that particular location and the berm happened to be an inch shallower then it should have been – I guess we have to build in ways to ensure that it is considered across the whole farming landscape as opposed to just one particular location.

The reality is that there is no doubt, some of the things we have to ensure through checklists that they are included in the files. As Dave mentioned earlier on, the \$200,000 that was identified as not having project claim forms on file, they actually did have to have project claim forms or the cheques never would have been cut. Unfortunately, those documents were not included in that particular file that the auditor looked at.

MR. MURPHY: Okay.

MR. DEERING: So essentially, yes, we agree there are elements that we have to get tidier on, no question about it, but as well we have learned that we have to include some flexibility in our guidelines to be realistic with the farming operation.

MR. EVANS: Just to add to Keith's response, we feel that we have the adequate staff and resources to monitor and manage these programs as well. We have a lot of staff managing their Growing Forward 2 program and other programs that we have in place.

If we do come to a point where we feel that we need extra staff, we will make that case and add staff if everybody is in agreement; but I think we have adequate staff and resources and budgets to manage these programs.

MR. MURPHY: Okay.

You can probably have somebody there who would be able to do this auditing process and make sure that all the paperwork and everything is together, or do you need an extra resource for that do you feel?

MR. EVANS: My view is that we have adequate resources there now and finances and

staffing. I will refer to Keith if he has some comments on it.

MR. DEERING: I would agree with Jim that we have adequate resources. No doubt, there was a bit of confusion but suffice to say, from my perspective anyway, the necessary paperwork was there, but it just was not included in the right files. It looked like there was a little bit of confusion, but from my perspective, through this process and others, we have learned from that and we are prepared to deal with that if another program is approved.

MR. MURPHY: Okay.

In your response to the Auditor General, you indicate that there was no intent to depart from established protocols but that these changes had no negative impact on the overall outcome of the project. What evidence do you have to base this statement on, in your response?

MR. EVANS: I guess our response refers to the establishment and success we have seen to date in the industry and developing the industry to the point that it is. I think it is in excess of 250 acres in development now and some in other various stages of development.

Without the program and certainly the other program that Keith mentioned, ACOA and the Grand Falls program I will call it, had a big influence as well because it was ninety-cent dollars – my view is that without our program and certainly acknowledging the other programs that were in place, the industry would not be where it is today.

We acknowledge the administrative errors and will take corrective action if we do have another program. My opinion is that it has been successful to date, establishing the farms and getting them to the place they are right now.

MR. MURPHY: It sounds like it. That is the flavour that I am getting; it is a cranberry flavour about it I guess you could say about that. I want to wish you all the best with working with the industry, some good work gone in there now.

What other areas of the Province –

CHAIR: Mr. Murphy, before you embark on another area, maybe we should go to Mr. Peach.

MR. MURPHY: Sure.

MR. PEACH: Thank you, Mr. Chair.

First I want to make a comment that I too do not know too much about cranberries, but I have been following a lot of things that have been happening. I am just wondering, the cranberry that we know in the bogs in Newfoundland, are they the same cranberry that we are producing here, or is that a different berry altogether?

MR. EVANS: It is a different berry, and I will have to refer the specifics to either Keith or Dave.

MR. JENNINGS: Basically what you have is a very similar plant that grows wild, but through years and years of breeding they have taken the wild cranberry that grows on the bog and created varieties that are more productive and produce bigger berries. So it is the same plant, different breeds.

MR. PEACH: Despite the documentation that was made, there are a lot of things here that it says was not adequate. Can you tell me, out of all the producers that you have, have any of them failed, have they withdrawn, or what percentage is still there from the beginning to now? I do not know if that is a fair question or not.

MR. DEERING: To my knowledge, we only have one farmer who started the program and has not continued. The area that he had identified for his particular farm just lies undeveloped at this point. Dave, you can correct where I am wrong, but I can only think of one.

MR. JENNINGS: Yes, definitely there was one person who initiated a project and initiated a farm, no funds were disbursed to that individual, but early in the game decided that he was not going to continue.

MR. PEACH: I know when I was on the zonal board some of the discussions that we had with some of the local farmers in the Lethbridge area and those places there, they were doing some investigations on cranberries and that, the

frustration, I guess, of running a farm and you have to be so many years into it before you start making a profit, and it is so costly. I am just wondering if there was somebody who probably got fed up with it and said look, I cannot do any more of this, and money was spent by government – taxpayers' money – and then all of a sudden then we are out probably \$500,000 or \$600,000. So I did not know if we are into that kind of a situation.

MR. DEERING: No doubt, there were some farmers who expressed frustration when our program ended last March, but they are all in operation today. Some have established U-picks, and obviously that is not the commercial vision that we had for this, but some have established U-picks and have sort of been waiting to see if there is going to be another government program to allow them to continue to develop their operations.

Essentially, with the exception of this one person who, as Dave mentioned, decided for his own reasons early in the game that he was not going to continue – again he was not provided any funding – he is the only person that I know of who decided to get out of it.

MR. PEACH: It would be kind of discouraging to put all your time in it and then all of a sudden not be able to move on and produce, because it is a process that is very slow in getting going.

Have you done any studies or are you doing any studies now in other areas of the Province like on the Eastern Avalon, places like that, or in the Clarendville or Lethbridge areas? Are there any studies going on now for producers or for possible areas that could be produced?

MR. DEERING: For additional cranberry development?

MR. PEACH: Yes.

MR. DEERING: I guess there is no specific piece of work being done to focus on cranberry development, but suffice to say we do have a program where we are identifying agriculture land base right across Newfoundland and Labrador. I guess cranberries are part of that. We have identified a couple of very significant size bogs that would be ideal for cranberry

development, which would get us tenfold where we need to be towards our commercialization strategy.

There is no shortage of land base. Really, you need a good, flat bog with access to water resources and accessibility by road and things like that and you are good to go. Engineering can –

MR. PEACH: What about the climate?

MR. DEERING: Climate is significant. Climate can certainly improve yields and the couple of places that we have identified these couple of big bogs are in an ideally suited climate for this sort of thing.

MR. PEACH: Under the finding from the Auditor General it said, “The Department did not comply with the Cabinet directives related to the CIDP. The Department did not recover 50% of the estimated plant cost from the producers nor did the Department prepare an annual program evaluation...”. What was the reason for that? Why didn’t they get the recovery? Was there some reason that the monies were forgiven to the farmers or was used up rather than recovered?

MR. EVANS: No, we acknowledge the findings certainly. There was 50 per cent of the revenue not collected for cranberry plugs from Wooddale Tree Nursery.

I think the answer is there was an effort put forward by staff at the time to adjust the decision and make the decision changed, or go forward with a request to change the decision, I guess. Through staff changes, it did not get put forward. I will say there was some confusion around that with previous staff members, none of which – three of us were there at the time.

In addition to that, the other programs that we referenced earlier were giving away free plugs. So there was a disadvantage to the farmer I guess under our program to have to pay for 50 per cent of the plugs. That was the reason the request to change the decision was put forward, but we certainly acknowledge the decision and it was incorrect to do that.

MR. PEACH: In deferring program criteria, there was a 50 per cent contribution from the producers. That is what was required, but in the Town of Grand Falls-Windsor’s cranberry project they only had to put in a 10 per cent contribution. What was the reason for that? Why the difference in the –

MR. DEERING: As I mentioned to Mr. Murphy previously; when we announced our CIDP, very shortly after that the federal government, in response to the Abitibi closure, had announced their own program, and the terms of their program was much more favourable for producers than was ours. Under their program the producer only had to contribute 10 per cent, and under our program it was 50 per cent. It was two completely different programs. Obviously, most producers went to the program that offered ninety-cent dollars.

MR. PEACH: Okay. One more question.

On the recommendations, and I looked at the actions the department would be taking or was recommended to be taking. I am just wondering, out of all of these recommendations, all these actions that are outlined here, what percentage would the industry right now be at with regard to implementing these recommendations? That is in the final pages of the report here.

MR. EVANS: Without reading every one there right now, I believe it is fair to say that the actions for future programs will be implemented to address the findings in the Auditor General’s report.

I will say again, we did learn from previous audits of our Growing Forward program, for example, and have implemented changes similar to these actions in our new Growing Forward 2 program. So I think it is safe to say that these will be implemented for future programs.

I am not sure, Keith, if there are any implemented right now?

MR. DEERING: Well, we do not have a program right now; but, as Jim had mentioned, if there was another program obviously we would be prepared to implement checklists from other programs. These checklists, in my view, would

not have any extra burden for producers. I think that was the essence of your question.

My sense is that most of what the Auditor General had highlighted here were errors in internal processes and making sure documentation was on file where it needed to be. Our sense is that the checklists and changes in program implementation that we have contemplated for other programs – and obviously for this one, if there is another program – would be up to standard and up to date with the Auditor's recommendations and should be transparent to farmers. This is really all about just internal process.

MR. PEACH: Yes. I know these refer to future projects, but the ones that you already have ongoing, I guess there are a lot of things throughout the report that said inadequate documentation and these kinds of things were being done. I guess that is tightened up now, and probably is being done right now?

MR. DEERING: Yes. Well, like I said, we do not have a program right now. Our cranberry program ended on March 31, 2012. We have had a full year and a bit now without a program, but if there was another program, we certainly would be better prepared with checklists.

MR. PEACH: I think what I am getting at is you already have producers out there now that you have put money into and they are still ongoing, are they not?

MR. DEERING: Yes.

MR. PEACH: So you are still monitoring what is happening to these producers. That is what I am getting at.

MR. EVANS: We visit regularly and have on-farm inspections, yes, but we do not monitor them for funding approval because we are not providing any funding right now. Our Growing Forward 2 program, which is in place now, we do have – a lot of these similar actions are already implemented in our Growing Forward 2 program where we do administer funds to farmers.

With the cranberry producers right now, we do not have a cranberry program. So we are not

monitoring them for funding, just for on-farm inspections – unless they do get money from a Growing Forward 2 program, where we do have actions in place and monitoring for that reason.

MR. DEERING: I could just add to that, if I could. I understand your question a little bit better now, Mr. Peach.

There continues to be regularly scheduled meetings of the cranberry association. We participate in those meetings and we have a very firm understanding of where they are. The conversations are very different these days, because previously when we had a program most of the conversation was about development of individual farms. Suffice it to say dialogue is a little bit different, but we do participate and monitor existing farmers, yes.

MR. PEACH: Okay, thanks.

That is all I had, Mr. Chair.

CHAIR: Mr. Osborne.

MR. OSBORNE: Thank you.

What is the total investment by this Province into the cranberry industry to date, not only under this program but historically? Do you have any idea?

MR. EVANS: I will refer to Keith and Dave here, but I believe with all the other programs on some of the farmers' investments, the Wooddale cranberry production, we are well exceeding the amount of our original intent.

Keith, do you want to refer to that table, please?

MR. DEERING: There have been three programs, not including the pre-commercialization phase. There has also been significant investment into our R&D program. I do not know that this number here refers to the total. The notional number that we have contemplated just recently was about \$12 million in total in government expenditure.

MR. OSBORNE: Okay.

MR. JENNINGS: I think we should be aware also that we continue to do research on things

like new varieties. We have recently signed an agreement with Rutgers University in New Jersey to look at some of the varieties they have recently developed that have the potential to almost double the yield per acre. If we can get those to grow properly in this Province – and we are at a preliminary stage of evaluating those – we could make this even more profitable. If you could get 35,000 or 40,000 pounds an acre, instead of 20,000 or 25,000 pounds an acre, it changes everything. It makes it much more lucrative and a much more economical industry.

So we are making small investments all the time into things like research and development to look at this stuff, but as far as program funding, there was pre-commercialization, there was a CIDP program. Then there was the ACOA program where basically there were funds from IBRD – or ITRD at the time – and also free plugs from the Department of Natural Resources. If you add up all the program funding, you should be in the ballpark of around \$12 million.

MR. OSBORNE: Okay.

The federal investment under the ACOA program, do you have any indication as to what they may have invested into the industry?

MR. EVANS: We do not have that answer right now, but we can get you the answer. The previous question as well, we can supply those answers subsequently if you want.

MR. OSBORNE: What would the total investment need to be now? You said the industry is about halfway there to be considered commercially viable to have secondary processing.

MR. EVANS: Without the secondary processing investment, to get the cranberry farmers up to where we feel they need to be, it is about roughly \$7 million. That is our anticipated expenditure required to get roughly 500 acres into production.

MR. OSBORNE: Okay.

How many employees are currently working in the industry?

CHAIR: Mr. Osborne, do you mean government employees or farm employees?

MR. OSBORNE: No, farm employees.

MR. DEERING: Some of the farms are diversified operations that include commodities other than cranberries, and some of the operations are at various stages of construction development as well. Obviously the cranberries that are in primitive stages of development have a lot more requirement for labour intensity.

So I guess at this point we feel that the numbers are handy about 250 seasonal employees. That would significantly decrease once farms have matured and have gotten to the point where it is just maintenance and harvesting.

MR. OSBORNE: Okay.

Once the farms are matured, operating, how many jobs do you envision being dedicated strictly to cranberry farming?

MR. DEERING: To cranberry farming and to secondary processing, which is where our goal is, we anticipate employment levels at about that level, including secondary processing, at about 250.

MR. OSBORNE: Okay.

How many would you dedicate to the secondary processing itself?

MR. DEERING: I would have to get back to our reports and look for those numbers for you. I could not say precisely right now. These are ballpark estimates.

MR. OSBORNE: Okay.

MR. DEERING: So I would have to –

MR. OSBORNE: Well, I guess on the flipside of that, how many would you say would be directly involved with the farming as opposed to –?

CHAIR: They are getting feedback from your electronic device in the Broadcast Centre.

MR. OSBORNE: Oh, no problem.

How many would you –

MR. JENNINGS: Basically, when we looked at an average size, if we looked at a farm that was forty or fifty acres that was fully developed. In other words, what you were looking at is a growing crop. You are looking at maintenance, fertilizer applications, and all the different protocols that you have to put into a cranberry farm. To operate a farm like that you need three to four people operating that farm to make it work.

When harvesting season comes and when the harvest – I think one of the members referred to seeing flooded bog with people harvesting cranberries. It would take more labour at the time to get the crop off. So, there is a seasonal aspect to that as well.

Where it really kicks in, from a labour perspective, would be once you take that product and try to do something with it, whether it is packaging or processing or whatever. That is where the big labour piece component of this will come in, but for an average farm it would take three or four people working the farm.

MR. OSBORNE: Okay.

So full-time equivalents, would you be able to give a ballpark?

MR. JENNINGS: If we were looking at 500 acres, for instance, just in rough numbers, if we were looking at ten farms, you are looking at forty or fifty people, full-time equivalents to operate a 500 acre industry. A lot of this depends on what the operation is like.

If it is a standalone cranberry farm, there will have to be a lot more people dedicated to the cranberry part, but if you are – we, for instance, have people who are cranberry farmers that also have livestock and grow forage and do different things like that. So their employees are going to be shared amongst all of that activity. It makes it a much more viable business to be diversified that way.

MR. EVANS: In addition to the direct employment, we always use an indirect or induced employment. It is usually a 2-1 ratio. If it is 250 directly related to processing and

farming, our estimates, I guess, would be another 250 in indirect or induced employment throughout the Province.

MR. OSBORNE: Okay.

I am just trying to establish a value to the economy. We have a \$12 million investment; we have fifteen farms, maybe three employees per farm; so that is about forty-five employees, plus some seasonal. I am wondering, are we buying jobs or are we creating meaningful, sustainable jobs that are actually contributing back to the economy?

MR. JENNINGS: I think the thing, Sir, that separates the cranberry industry from a lot of the other activities we do, the big cost of developing a cranberry farm, is the upfront cost, the actual engineering and construction of the bog. That is why the programs we design have to address the construction phase of the farm. Right now, we estimate to create an acre of cranberries is between \$40,000 and \$45,000 at today's dollars.

The difference is that once you establish a cranberry bog, once you get that up and done properly and you have all the engineering done and the crop put in and whatever, you could get fifty to 100 years out of it without having to do it again. It is a long-term sustainable investment. It is a big upfront cost, but unlike other farms it is not that expensive to maintain it going forward. I think that is one of the things we have to realize.

That is why it is so difficult for somebody who contemplates getting into the cranberry business to come up with their own funding from a private funding agency or something like that, because it has to be very patient capital or it is just not going to work. From the day you start, it is probably three or four years before you start to see any return on investment.

MR. OSBORNE: I would be interested in knowing, if you could provide to the Public Accounts Committee some estimates on what the federal investment was in addition to the provincial investment. Where are the markets right now for the cranberries produced?

MR. JENNINGS: There are about two different places that these berries are going right now.

First of all, some of the cranberry farms themselves have gotten into fresh pick. So they are either having people come on the farm and pick them themselves or they are actually packaging and selling them to retail as fresh picked berries. You can go to any grocery store and buy fresh cranberries.

They are tapping into that market and they are getting much better return on investment, a much higher price per pound that way. That is a small portion of our crop. The vast majority of the crop is being sold to one particular company that is washing, cleaning, and freezing them for export to Europe. Most of our crop is going to Europe.

MR. OSBORNE: Okay.

Is the company that is purchasing, washing, cleaning, freezing, is that a local company?

MR. JENNINGS: That is a Newfoundland company, yes, Sir.

MR. OSBORNE: Okay.

What is the quality of the fruit produced in this Province compared to other jurisdictions? How would it compare?

MR. JENNINGS: We have noticed a very interesting thing about the crop grown in this Province. Our berries, for the most part, on most of our farms, seem like the berries appear later in the season. The pollination takes place, the fruit develops, and it happens later in the season.

When we originally started doing research on this we were a little bit worried, because in other states, other provinces, fruit set was earlier. What happens here in this Province is that the fruit sets; it grows really fast, and it gets bright red really fast. We have a really bright, dark red fruit on almost all the varieties. So it makes it exceptional quality.

If you look at some of the other jurisdictions where fruit ripens slower, some years they do not get fully ripe and you end up – I do not know if you have ever seen clear, white cranberry juice on a shelf. That results from the fact the fruit did not ripen. It is a much lower

quality product and it is worth a lot less money. So we certainly have among the top fruit that is produced in North America right now.

MR. OSBORNE: Okay.

What challenges and what advantages do our local growing have over farms in other jurisdictions? There are obviously challenges here, there are obviously advantages here. I am just wondering if you could outline those.

MR. EVANS: I will just start, and refer to Keith or Dave.

I think the challenge is the investment in getting the farms developed, the upfront capital that is required, the \$40,000 or \$50,000 per acre. The advantage I think we have is the quality of fruit, as Dave just mentioned, and the research that we have invested and conducted.

There may be other things, Keith or Dave, that you might want to mention.

MR. JENNINGS: I can address that.

As Mr. Evans pointed out, there are certainly challenges with raising capital and getting setup in the business. The other thing is we do not have a well-established industry, so we have to bring knowledge in. We have to get knowledge from other places to develop it. That is something we are working on. We are involved in that readily.

The big advantage we have, I think, is the availability and the cost of land. We are blessed in this Province with a lot of land, a lot of Crown land. So farmers do not have to go purchase land to develop a farm on. We have a program in place where you can acquire land through a lease system, and that is a huge advantage.

The other advantage is we have a very pristine environment. Our products are known to be from pristine, clean environments, and it makes them very valuable and very marketable. We have a lot of assets of that sort that we can use for marketing and for promoting our industry. So I think that is important.

MR. OSBORNE: Okay.

If we have a superior quality fruit, have we reached out to some of the larger companies, the juice makers, whatever, to look at our Province, maybe invest in our Province? Obviously, they would be interested in a superior quality fruit.

MR. JENNINGS: Initially, when this program was moving from the R&D phase to the – just before CIDP was developed there was a lot of effort put into having discussions with the Ocean Spray Co-op. They were in this Province, and they were very enthusiastic about the peat land resource that we have in this Province. They were very interested in everything.

At the time they were looking at Newfoundland and they were looking at New Brunswick. For some reason they decided to go with New Brunswick, and they did a large development over there. Certainly companies like that are well aware of the potential here in this Province. We do have a superior fruit, a superior product. We just do not have a lot of it yet. It is a volume issue.

MR. EVANS: I think it is safe to say –

MR. OSBORNE: Excuse me, Jim, if you could. I am distracted by somebody's pen.

WITNESS: Oh, I am sorry.

MR. EVANS: I think it is safe to say that we have not ruled that out yet. If we do get to the phase with another program and have 500-plus acres in production, I think we would certainly engage in some discussions with some of the bigger producers as well and tap into that. We have not ruled it out entirely.

MR. OSBORNE: Okay.

I do have a couple of other questions but I know I have used up my time.

CHAIR: We will go to Mr. Cross and then we will take a morning break.

MR. CROSS: Good morning.

I find the information very intriguing so far. In looking through the documents I appreciate the fact that even though the program is closed now

with regard to Growing Forward and other programs, some of these issues will be covered.

I have a couple of other topics that are a little different. The experimental farm at Deadman's Bay, which was in my district, closed down last year. I know there is a local not-for-profit group that have been expressing some interest, but rather than just let that farm go, are there any plans to divest it to some other group for it to be able to continue? Because even though it is a small acreage it still has potential for research and local things.

MR. DEERING: Yes, you are right Mr. Cross. The Deadman's Bay facility was an extreme benefit to us in the R&D phase of this piece of work. We were able to test various varieties of cranberries down there to determine which one was most suitable for Newfoundland's conditions, and we have effectively done that.

In the process though, what we have managed to do down there is set up a facility that has maybe half a dozen different varieties. So, as a commercial operation somebody would have to go in there and basically start again. All the engineering is there. We have infrastructure down there as well that could benefit a new entrant. At the end of the day, utility, as a commercial operation as it is, is somewhat limited because of the range of varieties that are down there on that site.

As well, there is a potential to expand that site. Right now the site occupies, in terms of cranberry production, only about eight-and-a-half acres, but the potential obviously exists to expand that up to fifty acres right in the vicinity of the current set-up.

After we decided that Deadman's Bay had exhausted itself in terms of research value to us, we did advertise it a couple of times for somebody to take it over as a commercial operation, and I guess we did have some interest from people interested in doing that; but obviously, they would have been far more interested had we had another program to offer them assistance to develop it further, because eight-and-a-half acres just is not enough.

Obviously, there was some expectation of the return for our own investment in it, particularly

with regard to the infrastructure that exists down there. At this point, we have not received any proposals to return that minimal investment. Our sense is that if there is a new program, a cranberry development program, we may have more commercial interest in developing that site further.

MR. CROSS: Okay.

The other thing is when we are talking earlier about development of lands in the area, there was another private industry in that area that were looking at a site not that far from Deadman's Bay and that sort of fell by the wayside because of environmental sort of impacts. I guess it leads to a question that when you look at a farm like a cranberry farm, it seems non-imposing – it is not like you are putting up skyscrapers or taking over the whole environment or putting in huge parking lots which take away the activity of the bog and things like that – how big of an impact does a farm have to the environment? It seems like the bird population that would come will still be able to nest; you are not taking all the bogs. Where the cranberries are, it is almost like a food supply then and it is natural, if the birds come in – and I know you can see the different colours on your vehicles when the berries are in bloom and things like that.

Obviously it is a food supply for the birds as well. How big an impact are environmental issues or environmentalists going to play in sort of keeping this production or level of production or number of farms on the Island. How much can we see that happening to it?

MR. DEERING: My sense is much the same as yours. In terms of staging area for waterfowl, I would expect that cranberry development would only help that, and I certainly do not see cranberry development discouraging habitat for waterfowl.

In the particular area you are talking about, there were several other things that were identified by the Department of Environment besides that. It was identified as a critical staging area for waterfowl, but there were a few other things as well.

We continue to talk to the Department of Environment about that particular site, as well as other sites, but suffice to say there are plenty of other prime quality sites to develop that are not staging areas for waterfowl as well.

MR. EVANS: If I can say something, I think with any development, whether it is in our view minimal impact with cranberry development or something on the other end, we always have to find a balance. That is where we are with the cranberry development, but I think we have identified ample acreage to accomplish our goals in addition to preserving the environment for various reasons.

MR. CROSS: Okay.

The other part of this, you said the program sort of stopped in 2012 and there is no funding now or no development; you are about halfway there. So, is there a plan to return to a program that would encourage investors, encourage people in the not-too-distant future, other than that you are going to be stuck at 250 acres and not get to that 500 or 600 –

MR. EVANS: Yes, through our recent budget, this recent budget, we do have some money identified for a future cranberry program. We are waiting for our partners to confirm their contribution. We are optimistic that it is going to happen. As I said earlier, we have proposed a five-year program and the amount of money we have put forward would get us to the 500 or 600 acre mark.

MR. CROSS: Okay.

I am good for now.

CHAIR: We could take our morning break. It is a little earlier than we have stopped before, but I do not think anybody will object to that and come back at 10:30 p.m.

Recess

CHAIR: We are back on.

Mr. Murphy, would you like to ask some questions?

MR. MURPHY: Thank you very much, Mr. Chair.

Before we went to the break we talked a little bit about provincial funding and federal funding. Mr. Evans, I think at that particular time you mentioned the federal program was a ninety-ten program while the Province was fifty-fifty. The provincial program I think started up in 2008. Funding, I take it, was available at that particular time on a fifty-fifty basis.

When did the federal program start, or was that an initiative itself through ACOA? Maybe you can give us some background as regards how long the feds were offering a ninety-ten split to the industry. Was it in general to the industry or was it just a general program that they could have availed of at the same time without being directly targeted towards the cranberry development industry?

MR. EVANS: I will start, Mr. Murphy, and refer to Keith or Dave.

Largely, the federal program was in response to the closure of the Abitibi mill in Grand Falls-Windsor. I stand to be corrected, but I believe the Town of Grand Falls-Windsor was partnered with ACOA and through INTRD, or IBRD it is today. To my knowledge, it was specific to cranberry development.

Keith or Dave, I do not know if you want to add anything to that.

MR. DEERING: Their program would have started very shortly after ours did in 2008. My memory is that it was a four-year program. So it expired a year earlier than ours did. At the end of the day, the terms and conditions outside of the funding proportions were very similar to ours. It was administered through the town, whereas ours was administered through the department.

MR. MURPHY: Okay, but it was still ninety-ten versus fifty-fifty, right?

MR. DEERING: That is correct, yes.

MR. MURPHY: I am just curious why the Province would have offered their program at the start. Was it just in general, just for the town

for something that was close by within the confines of the municipality itself? Why did the Province start on a fifty-fifty if the feds were offering a ninety-ten?

MR. DEERING: At the time when we started ours, we did not know that the federal government was going to announce their program.

MR. MURPHY: Okay.

MR. DEERING: At fifty-fifty in 2008, it was still a pretty good program, and when somebody comes along with a ninety-ten one, obviously, most of the producers went to that one. We did not know ACOA was going to announce that program when they did.

MR. MURPHY: Okay, I am just curious.

There was no communications on the part of the federal government or provincial government on the particular program then when they started up the funding programs? Was there –

MR. DEERING: I certainly would not have been around at the time, Mr. Murphy, when those discussions would have happened. I suspect there probably would have been, but I do not think they sought our approval for instance before they announced their program.

MR. MURPHY: At that particular time then, would it be safe to say it was too late for the Province to shut down their own funding offering that they had there?

MR. DEERING: Well, I certainly think we probably could have done that as one option, but at the end of the day we still had a year beyond the ACOA program that folks took full advantage of ours, and there were producers in between who did as well. Obviously, it was much less subscribed to than the ACOA one, but some people still did subscribe to it.

MR. MURPHY: Yes, okay. I will leave it at that. It was just a curious question there as regards to the federal and provincial programs and why they would not have co-ordinated that better with the Province at the same time, or the Province to co-ordinate better with the feds and use federal leverage funds rather than the

Province having to dip into its own Treasury to look into that. I was kind of curious about why they did that.

If I can, I would like to go back to some more items that are in the Auditor General's report and just see how your department is responding to these and to see if we can find out if there is going to be any corrective measures taken or any response being done to make sure that some of these measures are going to be adhered to from what the Auditor General is talking about.

I want to come to the section on page 173 of the Auditor General's report where it says: Business plans not always provided prior to funding. It says, "The CIDP guidelines required business plans to be submitted with the application. Business plans were required to include a business overview, marketing plan, human resources plan, production plan, financial plan, goals and supporting documentation.

"Two applications were approved and funding of \$49,450 was provided during the year ended March 21, 2010, however, business plans were not submitted until the producers applied for funding in subsequent years."

At the end of the day, did we receive all this appropriate documentation? Obviously not. What has happened since then? Have we gotten all of these documents now?

MR. DEERING: Generally, the two producers we are speaking about here were producers that we had engaged in the pre-commercialization phase, that were established farmers, as I mentioned previously, diversified farming operations that we had already had intense collaborations with over the years on their farming abilities. I guess when the CIDP was announced, these were already established farming operations.

The Auditor General was correct. At the time when they first started they did not have business plans, but those things did come as we got into the CIDP program, absolutely.

MR. MURPHY: Okay.

So your department did not see it – well, for the lack of a better term, did not see it as a priority because the businesses already existed?

MR. DEERING: We had business plans from these same farmers which demonstrated all their financial capacity from various other parts of their farming operations on file.

MR. MURPHY: All right. So they had already shown their viability because they were producing other product and everything.

MR. DEERING: That is correct.

MR. MURPHY: On average, how long were these other farms in business? Just to give us a rough idea.

MR. JENNINGS: (Inaudible) farms operated for decades before this.

MR. MURPHY: Okay.

They had a previous history out there, obviously, in the market.

MR. JENNINGS: The other part of that was when we initiated the cranberry research R&D phase, both of those guys offered to be a part of the research and development program. So from the day the first cranberry plug went in the ground, those two operations were a part of the program.

MR. MURPHY: Okay, and of course they are still in existence today and still producing cranberries?

MR. JENNINGS: They are the two most developed cranberry operations in the Province.

MR. MURPHY: Great. Okay, it sounds good.

All the appropriate paperwork that was necessary in these particular cases has been done now, or will be done?

WITNESS: (Inaudible).

MR. MURPHY: Okay, thank you for that.

It also says here on the same page, 173: Financial information not always provided or

adequate. I wonder if you can give us an explanation as regards to this particular topic here. It says, "The CIDP guidelines required applicants to submit financial statements for the previous three years of operation." Does the department now have all that paperwork in hand?

MR. DEERING: Yes, all that paperwork is on file.

MR. MURPHY: Okay.

On page 174. "The CIDP guidelines required that eligible applicants must be in good standing with the Province of Newfoundland and Labrador. This requirement was to be met by staff checking the status of the applicant with the Registry of Companies and Deeds. Four applications did not have a check on the status of the applicant with the Province's Registry of Companies and Deeds."

All that has been done now since then and they would have some form of letter of standing or something in their file now, would they?

MR. DEERING: Well, we certainly have checklists in place for our other funding programs. As we mentioned previously, if there is another cranberry program, that would be part of the checklist for this one as well.

MR. MURPHY: Yes.

MR. DEERING: Obviously, in this particular case these were established operations that had these things on file for other components of their operation. So, suffice to say, from an auditing perspective, it is part of the checklist and it will be included as part of the files on an ongoing basis in future programs.

MR. MURPHY: Okay.

Environmental farm scans not always completed.

MR. DEERING: Environmental farm scans were part of the checklist and they would have been completed or we would not have been able to process payments. Again, because of discrepancies, I guess, or deficiencies in paperwork, they were not included as part of the

file; but, certainly, as part of our own checklist, they would have been required in order to move them further.

MR. MURPHY: Okay.

MR. DEERING: They have been completed now for all farms.

MR. MURPHY: Okay.

Mr. Chair, I do not really have any other questions with regard to that. If I can give my final thought and probably get a response from the department. I think it seems apparent that if there was an auditing process put in place, that a lot of these measures and guidelines, chances are, probably would have been followed and may have done a lot to probably limit the extent of the work of the Auditor General. I just want to get some assurance about the final standing, about where you stand with regard to putting in that internal audited process or what is being done in the department right now, because I guess cranberries is just one aspect of it.

There is an assurance here, I guess, that everything is going to be done for the cranberries that the Auditor General has been asked for, number one; but is the department doing more follow-up with regard to internal auditing, not only with cranberries but with every other aspect of agricultural programming that you might be dealing with?

MR. EVANS: We absolutely agree with you because after previous reports from the Auditor General, whether it is an Agrifoods report or a Forestry report, we have noticed it is sort of a common theme that we are missing things in documentation.

We met with all directors, Forestry and Agrifoods, Keith and I and the previous ADM of Forestry, and had a discussion about how we resolve this. One approach is to do an internal audit or we can get an external independent auditor to come in annually or every second year or whatever.

We have not implemented the external audit process yet, but our own internal audits are in place. As an assurance or a check on ourselves, the external audit is another route. It is a little

bit of an expense but certainly if we are dealing with these amounts of money, it is well worth it.

MR. MURPHY: Right.

I guess a final thought to the Auditor General or to the Chair. I do not know if this would be a case where the Auditor General would go back or not just to make sure that all these checks and everything have been done and the proper documentation would be on file – how would we make sure that this work would be done (inaudible) –

MR. PADDON: This is kind of a little bit of an oddity because this program is complete. In terms of allocation of limited resources, I do not think it is good value for money for us to go back in and sort of redo this whole thing. I mean, ultimately what will likely happen is we will, at some point, look at subsequent programs and we would expect to see that sort of the processes that Jim talked about in terms of documentation would be in place at that point in time.

MR. MURPHY: Right.

MR. PADDON: I think as we go forward – at some point, we will go back and we will begin to look at some other programs so at that point you will see if you get that checks and balances in place.

MR. MURPHY: Okay.

Thank you very much for that. I have no further comments. I just want to say thank you very much for coming here today, on my behalf anyway. I guess you will hear from the others too.

MR. PEACH: I have a couple of questions for clarification out of some of the comments that were made. You go to the graph in the Auditor General's report and it says: funding not used. There is a comment there that says the majority of funding allocated for grants disbursements to producers was not utilized. What was the reason - not enough applications? Why wasn't the money used?

MR. EVANS: I think the main reason that our program was not fully subscribed was because

there were other programs that had more favourable terms. You mentioned the ACOA program; it was 90-10 dollars. There is another as well with more favourable conditions. Ours was 50-50, and I guess the farmers looked at their investment required in ours as opposed to the other ones, and that is the main reason why ours was not fully subscribed.

MR. PEACH: Okay.

The other question that I have is now that the program is finished, the producers are still out there producing but on a smaller scale than you had anticipated, so are these made feasible right now, without any other funding or any other help? Can they survive?

MR. EVANS: Of the number of producers we have in the Province, there are various levels of financial success, I will say, and some are in better shape that way than others. If we have another program – which we are optimistic about – we feel that the remaining producers will get up to speed and have the forty or fifty acres they require.

I do not know, Keith, if you want to add anything to that. I think most are still in production – or all are, sorry, and some are doing better than others.

MR. DEERING: I could just add one point to that. Some of the farmers in the interim – and this was not anticipated when we thought about this from the start – decided to open their farms to U-Pick operations, which is one way that they have adapted, I suppose, without further developing their operations. It is certainly not what we had envisioned in a commercial strategy. We want to get ourselves to secondary processing, but as Jim mentioned, some people continue to develop land base. Some people do not have the financial capacity at this point to be able to do that, so they have gotten innovative themselves and opened up their operations to things like U-Picks.

MR. PEACH: Can these berries be grown in a similar atmosphere as a greenhouse atmosphere? Can they survive that way? Can they be grown that way?

MR. DEERING: No. We propagate plants in nursery conditions but you certainly cannot grow fruit in greenhouses and you would not need to. I guess they thrive in bogs and without having to use investments, greenhouse infrastructure and things like that.

MR. PEACH: I just did not know because there are always experiments going on with everything.

The other question, I guess, the last question that I have: Are there much deficiencies in the berries? Do the farmers or the producers take much loss with the berries, or what percentage goes to market of the produced berries at the end of the year?

MR. DEERING: Right now, all of the berries that are harvested go to one processor who cleans and packages them for market, but without secondary processing here they are still subject to the low market conditions in terms of prices for cranberries that you only have one option. Right now, all of the berries that are harvested are being marketed through that one distributor, but our preference, obviously, is to get to a point where we can process it here and not be subject to those regional or national market conditions, which right now are fairly low.

MR. PEACH: I guess my question is – for instance, you go into the country and you see bakeapple blossoms; then all of a sudden we get a thunderstorm and then they are gone. Does that kind of a climate affect cranberries? Do the farmers experience any loss in that way?

MR. JENNINGS: Like any other crop that is grown outside, there are always perils that you have to manage. In the case of cranberries, there are things like if you had unusual frost during bloom time or if you had a sleet storm when the fruit is getting ready. There are possible things.

We have not experienced a lot of that. Our farmers have to put inputs in there. Sometimes they have to spray herbicides. There are a couple of insects that we have identified that need treatment sometimes. So there are management practices that have to be done to make sure that the crop is okay.

Once the crop is harvested and they are floated and taken off the water, when they go to the plant they are washed to take the leaves off and there is always a certain percentage of fruit that might be off colour or not fully ripe or a little rotten or something like that, but our experience has been that is a very low percentage. You are looking at 5 per cent or 10 per cent, which in any agriculture product is a really good number. I think we could probably say, Sir, that our percentage loss is within reason and probably better than most.

MR. PEACH: That answered my question.

I want to thank you. This has been very informative and certainly gives me a better understanding of the cranberry industry and what is happening. So I want to thank you for that.

WITNESS: Thank you.

MR. PEACH: That is all I have, Mr. Chair.

CHAIR: Mr. Osborne.

MR. OSBORNE: Thank you.

We had started to venture, I guess, towards the investment, federally-provincially. I am just wondering what kind of secondary processing you envision if the industry were to get to the stage that you talked about and hoping for secondary processing.

MR. DEERING: I guess the most common forms of secondary processing at the moment are in various forms of juice that David described earlier, as well as what industry people refer to as sweet and dried cranberries. These are the packaged dehydrated cranberries that people use for baking or even eating just like raisins. There are other products like wine and things like that, but our vision at this point has been limited to those types of processing opportunities: juice and sweet and dried. There may be other innovative things as well that we could develop beyond that.

MR. JENNINGS: The other thing, Sir, that we have envisioned, I guess, as a more holistic approach to this is that we are currently also working with other fruit crops in the Province

right now. We are working on cultivated blueberries, partridgeberries and things like that.

So if we were to get to a commercial phase with cranberries that we could have a plant, we could also process other berry crops there as well. You could see quite a diverse line of fruit coming out of this Province, things other than cranberries as well. Processing for all of these products is very similar, so you could use the same plant to do a lot of different things.

MR. OSBORNE: Is there secondary processing in New Brunswick now by Ocean Spray?

MR. JENNINGS: There is secondary processing in New Brunswick of cranberries by small, private companies. There is a company that we were talking to recently that has a 500 to 600 acre operation that draws on 500 to 600 acres that does its own brands of juice and sweet, dried products and things like that, and he is doing quite well with it.

MR. OSBORNE: What does Ocean Spray do with their product out of New Brunswick, do you know?

MR. JENNINGS: Ocean Spray ships directly to the their own processors. That is a co-operative – Ocean Spray is a co-op that is composed of producers. They are very restrictive as to where their product goes. They have their own processing plants.

MR. OSBORNE: How about in Quebec where you have talked about the fact that they have I think it was 8,000 acres of –

MR. JENNINGS: Yes, in Quebec you are going to see there is suite of different processors, smaller processors. Some of the fruit probably ends up going to Ocean Spray, but there are several other processors in Quebec that have their own product lines. It is a pretty diversified industry over there.

MR. OSBORNE: How successful are the product lines from the smaller producers in New Brunswick?

MR. JENNINGS: The one person I was speaking to this year, his business is growing every year. You can go to the supermarkets – I

cannot remember the brand right now, Sir, but if you went to a Sobeys store and looked at where the cranberry products are, you will find that product there right next to Ocean Spray's product.

MR. OSBORNE: Okay.

With our geography, earlier this month we saw the last of Joey's – Terra Nova Shoes shut down. I guess just our geographic location and such a competitive world out there, secondary processing in this Province has always struggled. I remember a local juice maker, I think, located in Mount Pearl struggled and were not able to make it.

I am not trying to rain on your parade by any stretch of the imagination but just looking for the reality on how successful a secondary processing industry would be in this Province for cranberries.

MR. EVANS: I agree with you that there are challenges but in another file or two we are dealing with, we are at an advantage to the European market from the shipping distance perspective. That would be an advantage to us over, say, in the interior of Canada, in Quebec. We have seen that in other cases.

I am not sure if you want to add to that, Keith or Dave?

MR. DEERING: One of the things we have been talking about, Mr. Osborne, at the federal-provincial-territorial table is the global food security issue. Global populations are expected to increase very significantly by 2050 and we are already asking ourselves globally the question whether or not the world can keep up with the demand for food.

A lot of jurisdictions, a lot of other countries in the world are looking towards Canada, and of course at the FPT table in Canada a lot of jurisdictions are looking towards places like Newfoundland where we do have significant land bases yet to be developed. So my sense is that markets for food products generally are not going to decline, and markets certainly for products which have already been identified as having medicinal benefits and things like that,

like cranberries, are certainly going to increase even further.

MR. OSBORNE: How do we compete – even on a local level, even with fresh produce in this Province we are producing less than 10 per cent of what we consume in local produce. I mean, we do have vast land, but we cannot compete with larger farmers for potatoes and carrots in our own Province for our own consumption, so how do we do that with cranberries and compete?

You look at something like the Sprung greenhouse or whatever; it is great to have the goal to say that we are going to start producing in this Province, but how do we compete on a global market? Because to ship to Europe as a raw product, if our berries are superior, I can see shipping as a raw product and maybe that being viable a lot easier than putting in a bottle and shipping it as a finished product into the European market and being able to compete with companies like Ocean Spray.

MR. JENNINGS: One of the things that a lot of these processing operations require for some products is closeness to fresh fruit. Fresh fruit does not ship well around the world, so that is why you look at secondary processing. I think it would be important to establish processing fairly close to where the stuff is being produced, being grown. I think there will always be an advantage if you can have processing next to where the production is taking place, and that is important.

You are right; we are not doing a great job in competition with stuff coming in from outside, and a lot of that is around cost of production. In the case of things like cranberries and blueberries, our cost of production is well down here. We are very competitive when it comes to doing things like that, and a lot of it is around the availability of land base and that fact that our land is not extensive.

I think there are certain advantages that we have here that would be in our favour. There is always going to be a competition. You are going to have to always do a good job at what you are doing, but there are a lot of attributes that we have here that will help us get there (inaudible) –

MR. OSBORNE: I know; the same could be said of produce. The Goulds and Kilbride are full of land that was given free of charge to farmers back in the 1950s or 1960s to try to increase our production of local produce. They were not able to make it.

I know we need less spray on potatoes in this Province, for example, than they do in Prince Edward Island. There is less reason to spray, so our product is a superior product when it comes to potato because there are less pesticides or herbicides or whatever put on those products.

MR. JENNINGS: Exactly.

MR. OSBORNE: We are still not able to compete with PEI on locally grown potatoes. Our land is cheap. They are produced here locally. You do not have the transportation costs.

If Ocean Spray is shipping their product from New Brunswick down to the States to be bottled and what is being produced here now is washed, frozen and shipped to the Mainland, are we headed in the right direction to hope to have a processing – I would love to see it successful; I am just looking at is it a wise investment. Are we better off focusing on continuing to produce, keeping in mind – I was wondering, are we buying the jobs or are we creating sustainable jobs that are going to benefit the economy? If we are going to go a step further and get into production, are we truly able to compete on a global market and have it a viable secondary processing industry because we have seen case after case after case of local business not able to compete because of geography?

MR. EVANS: I think you are right. That is our vision. When we get to the point of having 500 acres or 600 acres or just prior to that, maybe we need to reassess the markets and the competitive nature of the industry. At that point, whatever the results show, maybe we are better shipping our frozen product somewhere else, or it may show that we are better processing and have a niche market or something. It would be in our vision right now, but at that point we need to do some further work.

MR. DEERING: From my perspective – like, myself, if there is a locally grown product

available in the grocery stores, I will always buy that first. There are a lot of people like me who do not even look at the price tag of these things; they look towards locally grown products because it is fresher and, generally speaking, it is a better quality product.

I think, as you mentioned, it will always be very difficult for a farmer with fifty acres of potatoes to compete with a farmer in Prince Edward Island who has 10,000 acres of potatoes. Obviously our objective is to grow these operations so they can compete and at the end of the day get them to a point where we can begin to displace imports.

Suffice to say, your numbers are very close actually. We grow about roughly 10 per cent of our own food requirements, but the key is it is all being sold. The reality is if it was 20 per cent, my prediction is that all that would be sold as well.

Right now all of Newfoundland and Labrador's supermarkets have in their juice aisles products from Ocean Spray mostly. My prediction is that if we had a secondary processing plant here, there would always be a certain segment of society who would go to the Newfoundland products first and hopefully displace some of those imports.

MR. OSBORNE: Yes, absolutely. There is a reason Ocean Spray chose New Brunswick, and I would say it was geography. If we have a superior product to New Brunswick, then they did not choose New Brunswick because of the product, they chose it because of geography. A big company like Ocean Spray, to say they are going to pick a lesser quality product because of cost, tells me something. It is a tough global market here.

We have not been successful as a Province in increasing the production of locally grown produce. I know government after government has tried but it is difficult to – and it is a superior product. Our carrots, our potatoes are better tasting than what comes in from the mainland, but we are not able to sell those – or sorry, we are not able to increase the production of those.

We are able to sell it. Everything we produce we sell, I agree; but if it was profitable, you

would not have acres and acres of vacant land out in the Goulds that is not being farmed today, somebody would be utilizing that land.

MR. DEERING: My assessment is that we are growing the agriculture production land base. We do have new entrants that are coming into the system every year. Our footprint right now is approximately 25,000 acres. We have various programs that hopefully we will achieve our vision of getting to 100,000 in the next decade or so to help us make significant progress to our own food security objectives.

I am not aware actually of the vacant farmland in the Goulds. Dave, I do not know if you are or not, but my sense is that every square inch of land that could be in production, particularly on the Avalon, probably is right now; if not for vegetables, certainly for forage for livestock. We are under significant pressure on the Avalon from alternative land uses. We get requests almost on a weekly basis, I would say, to convert farmland over to other uses and particularly on the Avalon where the population pressures are greatest.

I am not sure that I can concur with the assessment that there is lots of vacant farmland on the Avalon in particular. My sense is that we are pretty much at full production on the land that we do have.

MR. OSBORNE: I stand to be corrected on whether or not it is utilized or vacant. I know when I sat around the Cabinet table we talked about whether or not you would lift the restrictions and allow people to sell it for residential purposes. That is the great debate because these individuals received the land for agricultural purposes and now want to sell it for residential purposes. That, in itself, tells you that there is more money to them perhaps in selling it as building lots than growing potato and carrots, unfortunately.

MR. DEERING: You are absolutely right. I concur 100 per cent. The cash opportunity upfront, it is certainly greater for an individual to sell it off for residential development than to keep it in the family for farmland development, there is no doubt about that, but the long-term implications that are quite significant – we have several programs that we have implemented, one

of which is the Land Consolidation Program. We spent most of our money on the Avalon, but we go around buying up privately-owned land to turn it into farmland.

Effectively, we get requests, like I said, on a weekly basis to convert farmland to residential development and other competing land uses. Our objective is to protect this as best we can, particularly within the legislated agriculture development areas which are on the Avalon and in Central Newfoundland in Wooddale.

MR. OSBORNE: Okay.

MR. DEERING: That is eroding every year. We see that land base shrinking smaller and smaller, there is no doubt about it.

MR. OSBORNE: I have one final question and that would conclude my questioning. We saw with the most recent program 14 per cent or 15 per cent of the funding being used over a period of five years. While I delight in the fact that we are taking federal money in for these purposes as opposed to having to use our own funding – it is always better to see the money come from Ottawa – the new program that is starting or subsequent programs, just an observation, to work with ACOA or other funding agencies and if there is funding available there maybe to work on developing a joint program as opposed to seeing our own funding not being utilized and sit there for four or five years.

MR. DEERING: I could make a comment on that, and this speaks to Mr. Murphy's point earlier on I think. Back in 2008 it might have looked like we were quite uncoordinated. That the Province comes up with a program and then four months later ACOA comes out with their own program at 90-10 dollars. I would admit at the time that did seem fairly uncoordinated, but since that time we have collaborated quite extensively with ACOA and other funding partners and suffice to say we have a collective vision now on where this industry needs to be in order to sustain itself. So, we have a regular dialogue with the federal government on these files.

MR. OSBORNE: Okay.

I wish the industry success. I would love to see secondary processing, but I just question the viability.

CHAIR: Mr. Cross.

MR. CROSS: Mr. Osborne just covered the last two things that I would have asked, so I have nothing to repeat.

I thank everybody for their answers.

CHAIR: I have a few questions. They are probably going to be somewhat all over the place because they are more like filler with the questions we have already had.

What is the length of time from start – if a person wanted to start cranberries with the program and let's say knew something about farming, you would not want to start with somebody who has no farming experience whatsoever but somebody with some knowhow, not necessarily a lot of experience in the field, or in the bog as the case may be, what is the general length of time from when they fill out an application until they have a sale?

MR. DEERING: General bog development usually, from the very first time you put the shovel into the ground to the time when plants are in the bog, has to take two subsequent years in order to get it from start to finish. Beyond that, it probably takes three years maybe after that before you start to produce fruit on those plants.

There is a certain amount of work that has to take place in the first year and then it is assumed that in the second year that piece of work has to be finished. Sand is a critical component of cranberry bog development, and it can only be spread in the winter. After the sand is spread, then you can go in the following year and actually plant the plugs in the ground.

CHAIR: When are you able to sell the first berry?

MR. DEERING: Well, it usually takes maybe three years after they are planted, Dave would you say, before you start to see fruit. That is more of the exception than the rule because we have fruit actually at our facility in Wooddale

which is just coming out of propagation that has fruit on it. Generally speaking, harvestable yields you do not see that until maybe three years, maybe four years after they plant it.

CHAIR: Five or six years in total?

MR. DEERING: Yes.

CHAIR: In the early years of production, is the rate of production usually lower? Does it take a while? As it matures like in your fourth, or fifth, or sixth, does it get better? In the early yields, are they pretty low compared to what they would be expected to be, or half, or three quarters?

MR. JENNINGS: We have seen yields that are probably in the 50 per cent to 75 per cent of maximum, or what we call really good yields, in the third to fourth year depending on the site, how good it has done, and how well it is managed. You could certainly start to see some kind of a harvest in the third year that the plants are growing. What happens is that the plants sort of propagate themselves after you get them started with these plugs and they get thicker and thicker and thicker so you get more and more fruit until it is just a solid mat of cranberry plants across the whole bed.

Obviously your yields will get higher. We have seen farmers who have gotten better yields probably three, four, five, or six years down. It keeps getting better and better until it reaches a point where that is the maximum.

CHAIR: Setting aside the development cost, at what point, on operations alone, would a cranberry farm reach break-even? I know that may vary whether you have ten acres, twenty acres, fifty acres or whatever. What are you looking at just in operations for it to break even?

MR. JENNINGS: A lot of this depends on the value of the fruit, obviously. Our model was based on a fairly conservative estimate of yield, of being about 20,000 pounds an acre, and in the normal years historically, they could expect in the range of fifty cents a pound. So you are looking at around \$10,000 an acre.

If you assume that an acre costs you \$40,000 to develop, it would take you four or five years to

get your return on investment to get to the point where after that you are starting to make money. Your yearly maintenance costs are manageable; they are probably relatively small per acre, maybe less than \$1,000 an acre for fertilizer and all the things that you put on it. So, after five or six years, and then for a long period of time, probably even fifty, sixty years, it should be a profitable operation.

CHAIR: I know you likely cannot do anything about the price, unless you are working some sort of a niche market or whatever, but what are the typical input costs, apart from the development costs, as time goes on? Labour, fertilizer, what are they?

MR. JENNINGS: Well, if you are looking at a farm – and our estimate was you had to be forty or fifty acres of production to be a viable operation – we are looking at probably two-and-a-half, three person years, depending on the scope of the operation, on the farm for labour per year. Your inputs other than that would be things like fertilizer, it would be maintenance of the berms or the bog itself, and it would be maybe some pesticides if you have issues with insects or something like that, but those are relatively manageable inputs per acre.

Infrastructure up front is the biggest challenge to this. Even before you start to develop a peat bog for cranberries, there is an engineering aspect that has to be done to it. You have to have a water reservoir developed, you make sure there is gravity feed for water, because you have to flood the bogs and then you have to drain them. There has to be a flow through of water, so there is an engineering aspect to it as well. That is built in to the cost of establishment of each acre of bog.

So, it varies, but I think that if you assume \$40,000 an acre investment up front per acre, after that the maintenance costs are just your labour and your small inputs that you put. During harvest there are extra people hired, obviously, to get the stuff off the bog, but that will be a very short period of time. That usually happens early November.

CHAIR: So this, say, \$40,000 per acre, is this the cost that the provincial program looked at 50-50, and ACOA was 90-10?

MR. JENNINGS: When the CIDP program was first established, one of the reasons 50 per cent was looked at was because a lot of our other funding programs were 50-50 at the time – there was an agriculture policy framework program. A lot of the funding available through those programs was 50-50, so it mirrored those programs.

When the Town of Grand Falls applied for the ACOA program, the model that was used was the 90 per cent funding program for the Town of Grand Falls.

CHAIR: Is that 90 per cent of the \$40,000 or is some cost excluded?

MR. JENNINGS: Yes, about 90 per cent of \$40,000. So, it was a pretty rich program.

CHAIR: Okay.

I think I understand from you saying that the producer has to front the money and then get reimbursed?

MR. JENNINGS: Yes.

CHAIR: Are there progress payments? Like on a construction job you are 20 per cent done, 40 per cent done, 50 per cent done, or must it be all done?

MR. JENNINGS: Under the CID program, which was the 50-50 program, we assumed the value of – \$15,000 was the investment that the program would make in it. We assumed the cost of \$30,000 at the time, so it was \$15,000.

The way that was disbursed was that the first year – it would be under two years. You had to have a certain amount of work completed in the first year. If that work was completed and inspection was done to verify that it was completed, you would be given \$5,000 at the end of the first year. After the end of the second year, it had to be complete, everything done, plants in the ground. You would get the second phase, which was \$10,000 after inspection. It was broken into two years.

CHAIR: Was there any funding available through farm credit or anybody else for the farmer to be able to front some of that money, or

would the farmer have to come up with all the money personally and then get reimbursed?

MR. JENNINGS: There were all sorts of things. There were some farmers who had cash available, maybe through other businesses or things. There are some who went through FCC. There are some who went to other banks or whatever, I am sure.

If you had an application in the system and you had your application approved for \$15,000 for your program, then it would be pretty easy to go to a bank and say: Listen, here is my approval; I get paid for this at the end of it. I guess they would use that to help leverage some borrowed money.

CHAIR: So the farmer could basically assign that contract to the bank and say when the money comes from the Province –

MR. JENNINGS: I have seen it happen. I do not know in every circumstance that it happened, but if you have an approved grant application that is predicated on you finishing the project, then it is a pretty good thing.

CHAIR: In some industries they tend to work better if there is a cluster of similar producers. We know about Silicon Valley and we know about Heinz in Essex County. Does it work better if you are in a cluster here for the producer, or could somebody be pretty much anywhere in the Province?

MR. JENNINGS: I think the cluster model is important when it comes to sharing equipment. If you have a core group of people, like around the Grand Falls area where there are ten producers in an area, they do not all have to have harvesting equipment. They do not all have to have every little piece of equipment. They can share reasonably well. We see a lot of that happening.

Some of these operations, like the best ones we have or the most advanced one we have now are basically standalone operations, one in the west, one in the east, Terra Nova area. They do quite well on their own, but both of those operations are diversified farms. They have a lot of other things on the go besides cranberries.

CHAIR: Would a cluster work best for secondary processing?

MR. JENNINGS: There certainly would not be any issues with trucking fresh cranberries from one side of the Island to the other. We have one producer on the Avalon Peninsula, for instance; and the furthest away from that, is two in Bay St. George. There would be no problem shipping to a central location.

CHAIR: Is it possible to time the harvest so you do not have a glut and then none? Can you time the harvest over a period of some weeks or even months, or are you stuck with whatever you get? You get them all this week and that is it.

MR. JENNINGS: In the case of cranberries, you are probably looking at a two or three week period when everything is going to come off the ground. It is based on maturity and the fact that that is just before freeze up.

We have even gotten into issues where people were in the middle of cranberry harvest and they had a bad snowstorm. They had to wait until it was cleared up and then continue on. So you are at the early November period, usually.

CHAIR: Would they ripen at different times in different parts of the Province? Effectively, by being in a different geographic area you could actually time your harvest due to the weather or climate.

MR. JENNINGS: Minimally, I am sure that the fruit probably in Bay St. George matures quicker than the stuff that happens in Deadman's Bay. Deadman's Bay was the furthest, most remote north site that we had. It produced really good fruit. It was probably the last one that was ready to go.

CHAIR: Is there any long-term study on the potential for cranberries in the Province? Let's say we all went hog wild for cranberries. It is no longer going to be cod fish; we are not going to catch every last cod. We are going to turn every square inch of the Province into cranberries – which we would not do obviously, but is there any long-term study on how much production we could actually have if we got into it in a big way over time?

MR. JENNINGS: If you look at it from a potential point of view, we have somewhere in the neighbourhood of 3 million acres of peat land in the Province, on the Island. We have not even looked at Labrador from that perspective but if you look at the Island there is about 3 million acres that are identified. We are not going to have a 3 million acre cranberry industry, but there certainly could be several thousand acres of good cranberry land here that we could potentially develop.

CHAIR: With the program that ACOA had, which was 90 per cent, would it be possible to piggyback on the back of a federal program not to give somebody 120 per cent of whatever they are going to spend, maybe not even to give them more than 90 per cent, but is it possible to piggyback on what others support, such as technology, or marketing, or training?

The Province could be paying for some of the other inputs that a producer would have. While the producer is accessing the ACOA money for the 90 per cent, we might be doing something different which would improve their success chances.

MR. DEERING: Yes, the cranberry program, CIDP, itself was focused entirely on land development. We do have other programs. Some of these are cost-shared with the federal government, like Growing Forward, that can assist farmers with other aspects of their operations including marketing, equipment, things like that.

CHAIR: Okay.

I am encouraged that there are European sales. We are hearing that Europe has the largest trading block. Are there tariff issues right now with exporting cranberries to Europe that we have to face?

MR. DEERING: There are some. Some of the most recent ones, including CETA, as well as a recent agreement with a country like Israel. They provided tariff-free opportunities for various commodities, including cranberries.

CHAIR: Is it possible, or are we able to partner with a European partner? Europe has, say, 500 million people or whatever, and Germany is a

pretty rich country. They do not have a lot of land compared to what we have, but is it possible instead of – sometimes it seems like we harvest or grow something in this Province then we look for a buyer, instead of going out and finding a buyer, saying: What do you guys need? We want to supply that need. That would mean the end to the marketing part would already be done. Have we done that, or is that possibility there?

Someone might say: Well, you can grow all you want; we are going to use all of it anyway – instead of having to compete with someone like Ocean Spray or whatever.

MR. DEERING: We have not explored that in great detail. We have had very high-level discussions, incidentally, with the jurisdictions that you mentioned. We had a high-level discussion with Germany, as well Israel, on possible opportunities.

Incidentally, on cranberries, it is Israeli researchers who have discovered most of the medicinal benefits associated with cranberries. Cranberries are a real big thing over there. Unfortunately, for them though, they do not have any bogs that they can grow these things in. Whatever they consume in cranberries, they have to import from other countries.

We have had very, very high-level discussions but have not yet gotten down into the weeds on market opportunities.

CHAIR: It is great that we have lots of Crown land, for sure. It is a significant issue that I have come across, people actually accessing Crown land, getting it in a timely basis for a variety of reasons.

Is there co-ordination between this program, or Natural Resources and Crown lands? If you have a producer who wants to get going, that applications like that could be fast tracked, or somehow the process could be feathered in to get done more quickly instead of somebody waiting for a Crown land application to be processed.

MR. DEERING: In this particular program, all of the producers have already identified the land base necessary and have approvals in place for

the land base necessary to get themselves, individually, to self-sufficiency. In other words, some of them have twenty acres developed right now, but all the necessary approvals are in place for all of them to get to fifty acres. All of that was done upfront.

CHAIR: Do they utilize crop insurance or could somebody get wiped out in a year?

MR. DEERING: Right now, our Crop Insurance Programs are only focused on what we call the Jiggs' dinner, like carrots, potatoes, turnips, cabbage, as well as blueberries. Crop insurance is not available for other commodities at this point.

CHAIR: Okay.

In secondary production, where does the highest value reside? Is it in juice? Is it in jam? Is it dried? Is it cranberry sauce? Do we know where we can make the most money?

MR. DEERING: I would suggest probably in wine, but I am not sure if we can produce enough volume to generate enough capacity to use it all for that purpose. It seems like most other jurisdictions are sticking at this point with juice and sweet and dried. It seems like there is lots of market for that. For things like wine, it is very value added and a very high value product.

CHAIR: I am going to ask if any of the other members have questions. I may have caused some questions.

I will go to Mr. Paddon and his team. Are there any areas we ought to have covered or should cover, or you would like to inquire about?

MR. PADDON: No, I think the questions have been fairly broad and comprehensive. I have nothing else to add, or no questions to add myself.

Thank you.

CHAIR: In that case, Mr. Evans I will come back to you if you have any concluding comments. I will then be reminded I have minutes from yesterday.

MR. EVANS: Thank you, Mr. Chair.

We appreciate, as I said earlier, the opportunity to talk about our program because we do not get that opportunity very often. We will make the improvements and changes as the Auditor General has pointed out.

I have three or four things written down that we will get back to you on. I will write to you with the extra information that we could not provide right here today. We will do that in due course.

I just want to thank you, the Committee, and the Auditor General and his staff for all the co-operation and help.

Thank you.

CHAIR: I need a motion to pass the minutes of yesterday's hearing.

Moved by Mr. Peach; seconded by Mr. Osborne.

On motion, minutes adopted as circulated.

CHAIR: In that case, I think we stand adjourned until tomorrow at 9:00 a.m.

Thank you very much.

On motion, the Committee adjourned.