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Department of Fisheries and Aquaculture  
Aquaculture Industry Support

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Honourable Wade Verge, MHA

## Public Accounts Committee

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Chair: Jim Bennett, MHA

Vice-Chair: Ray Hunter, MHA

Members:

Eli Cross, MHA  
George Murphy, MHA  
Tom Osborne, MHA  
Kevin Parsons, MHA  
Calvin Peach, MHA

Clerk of the Committee: Elizabeth Murphy

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Appearing:

**Office of the Auditor General**

Terry Paddon, Auditor General  
Sandra Russell, Deputy Auditor General  
Trevor McCormick, Audit Manager (A)  
Tony Wiseman, Auditor

**Department of Fisheries and Aquaculture**

David Lewis, Deputy Minister  
Brian Meaney, Assistant Deputy Minister  
Dr. Daryl Whelan, Director – Aquatic Animal Health Division, Chief Aquaculture Veterinarian

The Committee met at 1:00 p.m. in the House of Assembly Chamber.

**CHAIR (Bennett):** Good afternoon.

This is a meeting or, probably more appropriately put, a hearing of the Public Accounts Committee of the Province of Newfoundland and Labrador. I am the Chair of the Committee; my name is Jim Bennett. Today we are looking into and asking questions regarding Part 3.2 of the Auditor General's report of December 2014, and it regards the Aquaculture Industry Support.

On my left are my fellow Committee members. The Vice-Chair is Mr. Hunter. Next to him is Mr. Peach and next to him is Mr. Cross. Mr. Parsons's seat is empty; he advised he may be a little bit late. Behind, in the next row, are Mr. Osborne and Mr. Murphy.

With us we have the Auditor General and staff, and we have individuals from the Department of Fisheries and Aquaculture. The witnesses give evidence under oath; however, they are not subpoenaed, they are here of their own volition to provide answers to questions to help the Committee with background information related to Auditor General's report.

Ms Murphy will now swear any witnesses who have not been previously sworn. If a witness was previously sworn at another hearing at any time in the period of this Assembly, since 2011, that person does not need to be sworn again.

#### Swearing of Witnesses

Mr. Tony Wiseman  
Mr. Brian Meaney  
Mr. David Lewis  
Dr. Daryl Whelan  
Mr. Trevor McCormick

**CHAIR:** Thank you, Ms Murphy.

We ordinarily begin by having the Auditor General provide us with some feedback, just by way of background, so that anybody who may be paying attention, watching, or ventures upon us wonders why these questions being asked and what is the background to this. The Auditor General explains his auditing process.

Then, before beginning questioning, we offer the department an opportunity to give us some feedback because things may have changed. Quite often, they have done some things in response to the Auditor General's report and this also allows us some context. When we begin questioning, we tend to go approximately in ten-minute segments, alternating back and forth among members.

Before I proceed, Mr. Hunter, did you want to say anything before we start?

**MR. HUNTER:** Thank you, Mr. Chair.

I would just like to welcome the Department of FA and, of course, again, our Auditor General's office and look forward to asking a few questions as we go on. I just thank you for appearing.

**CHAIR:** Thank you, Mr. Hunter.

Mr. Paddon, could you give us some background or context with respect to this part of our report?

**MR. PADDON:** Thank you, Mr. Chair.

Again, I will introduce my staff. We have Sandra Russell who is the Deputy Auditor General with me; Trevor McCormick, an Audit Manager in our office, who looked after this report; and Tony Wiseman who is the Auditor in charge.

I guess the focus of our report was around the Aquaculture Capital Equity Program which is administered by the Department of Fisheries and Aquaculture. Specifically it was around the administration and monitoring of that program, and this was a program that was designed to invest in companies that were interested in investing in the aquaculture industry in the Province.

Our audit had three objectives. The first was to look at whether support under the program was provided in accordance with the criteria set out in that program; whether monitoring was in compliance with the terms and conditions of the contribution agreements; and we also looked at monitoring around the Cod Demonstration Farm that had been funded by the department.

We had thirteen findings in our report and five recommendations. In terms of conclusions against our three objectives, in terms of support being provided in accordance with the criteria of the program, we determined that this was not always the case. Support was not always provided in accordance with the criteria, and I provide a little bit of context around that. We did not necessarily think that the support – it is difficult how to frame this. When we had discussions with the department around the criteria, the department's criteria – the objective appeared to be to kick-start the aquaculture industry. That was the genesis of this program, is to get a viable industry going in the Province. We did not necessarily think that was a bad objective. The criteria that were around the program, we did not, in our view, think they necessarily aligned with that overall objective of kick-starting the industry.

For instance, one of the criteria was that a company had to be in need of government support. In our view, we did not necessarily think that the companies required the support because of the financial position they were in; but, given the objective that the department wanted to get an industry off the ground, support was provided just to ensure that you had a strong player come in to start the industry. We thought that was probably not unreasonable to want to make sure that you had a winner to start with, but the criteria, in our view, did not necessarily align with that program objective.

We did find some issues around the monitoring of compliance in terms of financial information being provided consistent with some of the terms and conditions of the agreements. The Cod Demonstration Farm that had been funded, there was a requirement for monitoring within a certain time frame. We found that was not done on a timely basis.

So, as I had indicated, we did have thirteen findings in our report around the review that we did, and we did make five recommendations to the Department of Fisheries and Aquaculture as part of our report.

Thank you.

**CHAIR:** Thank you, Mr. Paddon.

Mr. Lewis or Mr. Meaney, do either one of you want to provide some sort of an overview or summary, opening statements some people call it?

**MR. LEWIS:** I want to introduce the officials who are with me here today. To my left is Brian Meaney who is Assistant Deputy Minister for Aquaculture in the Department of Fisheries and Aquaculture. I am the Acting Deputy Minister. Sitting directly behind me is Dr. Daryl Whelan who is the Director of our Aquatic Animal Health Division, in the event that there are any questions around bio-security or animal health that might need to be directed to Dr. Whelan.

I guess firstly we want to thank the Auditor General for the report. Our program has been in existence now for around nine years. It has been successful, I think, in kick-starting the salmon aquaculture business to a new level in the Province.

Aquaculture of salmon started in the Province thirty-odd years ago, perhaps closer to forty years ago, but it seemed like it was stagnant. It never really got to a significant industry; whereas, in other parts of the world, aquaculture of salmon was growing at substantial rates. The Province sort of reviewed why this might be and identified a program called the Aquaculture Capital Equity Program which would, as the Auditor General suggested, kick-start this industry.

So it has been successful in certainly moving us up to the next level on aquaculture. We had a setback in 2014 because of some disease issues, which I think we will pretty well be out of that cloud this year. We will be back closer to 2013 levels.

In the Auditor General's report he referenced the value of the industry being \$120 million-odd I think in 2012 when he did his review. It was actually \$197 million in 2013, and I think we are going to get back closer to those areas again. So, overall, in terms of the development of the industry, I think there is a fair success.

The Auditor General has certainly pointed out some of the issues around the program. He has identified issues around the criteria and the way the criteria could be interpreted as requiring a

financial need in order for companies to access the program. I think the intention of government and sort of the way that it has been interpreted by us – but I can understand where the discrepancies would be – was these companies have an ability to attract capital in many different areas.

If you take Cooke Aquaculture, for example, that was the first big player to come into the Province. They are in Chile, they are in Scotland, and they are New Brunswick. They are in numerous areas, not only in salmon but in other aquaculture as well. Of course, every time they make an investment they look at what the opportunity is. Most of these countries and jurisdictions that have aquaculture development have some kind of a support program. They weigh that when they are making their decisions.

In terms of the administration, from our perspective, perhaps the most significant findings that the Auditor General had, he certainly identified some deficiencies in how we were administering and coordinating the administration. There are three departments involved in the administration of the Aquaculture Capital Equity Program. We work in partnership with Business, Tourism, Culture and Rural Development, and also with the Department of Finance.

On the basis of the AG's recommendations, we have identified that there is a need for better file management, better management of the process of receiving and vetting and having reports reviewed on an ongoing basis. We have developed a policies and procedures manual and identified targeted staff within our department whose responsibility it is to manage these processes going forward.

I think we really appreciate those comments. I think it is going to serve us well in terms of improving our internal processes in the department to meet the recommendations that the Auditor General has made for us.

That is about all I would want to say by way of opening comments. We certainly look forward to answering any questions to the best of our ability from any of the members.

**CHAIR:** Thank you, Mr. Lewis.

We will begin with Mr. Osborne.

**MR. OSBORNE:** I just wanted to refer to Table 1, and the paragraph just under Table 1. "As of December 31, 2012 there were 145 aquaculture sites which occupied approximately 6,089 hectares of water area in the Province." Can you tell us how many aquaculture sites there are today and the area that is currently being utilized by those sites?

**MR. MEANEY:** I cannot give you the exact figures. A number of sites are still within – I would say, there may have been an additional ten over that period added, and I can certainly get you the exact numbers following the meeting.

**MR. OSBORNE:** Okay.

**MR. LEWIS:** I guess it is probably worth pointing out as well that not all the sites are occupied at any one time because with salmon aquaculture, the same as you do with farming on land, you have fallow periods. So you will set up a site in a certain area for a grow-out period and then you will move to a different site. The companies have multiple sites. They do not have fish on all of the sites at any one time.

**CHAIR:** I neglected to mention that you should say your name when you are speaking because people following along in Hansard will not know who is who.

**MR. LEWIS:** Oh yes, sorry, okay.

**CHAIR:** It is only a minor annoyance to have to say your name, but at least the people trying to transcribe will have a better chance of getting who said what right.

Thank you.

**MR. MEANEY:** Further to your question, to elaborate on, Dave, at any given time there should be roughly about two-thirds of the sites, whether mussel sites or salmon or trout sites, in production. So you have the current harvest years in that site would be occupied, the fish that you stock the spring for the next harvest would be occupied, and then the third site would lie fallow after harvesting.

**MR. OSBORNE:** Have there been any additional companies since the report that have applied for and/or been approved for funding through the department?

**MR. MEANEY:** Newfoundland Aqua Services, which is a supply company that does net cleaning on the South Coast, have applied and received a \$2 million contribution through the Aquaculture Capital Equity Program. As well since that, in the spring, there was a recent announcement with Northern Harvest Sea Farms for a major expansion of their operations and there was a commitment there over the next four years for an additional \$8 million investment.

**MR. OSBORNE:** Okay.

With Cooke, all of their financials, according to the Auditor General's report, looked pretty solid. They had a solid track record. As you indicated, they are in other countries as well. I understand the need, where Cooke was a large company, a major player, to attract them to the Province. I would like for you to be my banker when I am doing business.

To some degree, it is sixteen years before the need for repayment and that could be extended to twenty-five years, as well with dividend payments. How do you justify such favourable terms to Cooke – and I understand again the need to attract Cooke here, but twenty-five years before the Province receives payment for the money invested in Cooke seems to be a long period of time.

**MR. LEWIS:** Certainly it is clear that the terms for the Cooke project were more favourable to the company than terms for subsequent projects have been. As Mr. Osborne pointed out, they were the first big player in. We had an industry that had really been stagnant for quite a period of years while aquaculture was growing significantly elsewhere. So the government program was about trying to encourage significant investment in the Province. Cooke made substantial investments.

I understand what you are saying in terms of it was very favourable terms, but at the time this was considered to be a greenfield investment in Newfoundland that really had not been proven. I mean, our environmental conditions can be –

even though the South Coast is relatively ice-free, we do have cold water that can get into super-chill conditions from time to time and actually kill salmon over the winter. We have had some experience of that happening.

It was an unproven site, so it was considered to be a significant risk to the financiers and the company when they came in. I guess that factored into the government's decision-making process of determining what were reasonable conditions for Cooke. Once Cooke had come in and demonstrated that they were in fact able to successfully grow and market salmon and make money, then the other companies who came in behind had significantly different terms, mainly in terms of the amount of time taken to repay. Certainly, Cooke has a lengthy period of time of which they are less than half way through at this stage. The other companies have significantly less.

**MR. OSBORNE:** Okay.

With Gray aquaculture, obviously the terms were significantly different than Cooke, but not all of the background work was done, according to the Auditor General, with Gray aquaculture. Even the 20 per cent investment or equity that they needed was not there. Audited reports and so on were not provided. Since that, Gray has now filed for insolvency. Have we received any repayment of anything at all from Gray?

**MR. LEWIS:** We have not to date received any repayment from Gray. They have come out from under their bankruptcy protection, receivership. They were successful in refinancing their business and they are operating on the South Coast today growing salmon, and also operating their hatcheries in New Brunswick.

In terms of the equity piece, the department looked at the contribution of smolt to the project as equity, because Gray has a hatchery in New Brunswick that produces smolt and there is a market value for that smolt. We, at the time, had an opinion from an independent accountant that that, in fact, would count as equity. We worked with the Department of Finance, BTCRD, and we were not aware of anything different than that.

Our understanding, from further conversation with the Auditor General, is it is not the issue of smolt being contributed to the project; it was an issue of shares not being issued that would actually make it equity. It would appear as something different than equity on the balance sheet for that purpose is our understanding at least. In terms of the company's contribution to the project, it was a legitimate contribution of the amounts that were required in terms of value to the project.

The treatment of how that contribution was treated brought into question whether it met a question of equity or not. The best advice we had when this project was brought forward to government for final decision was that this was in fact the equivalent of equity. The two departments we worked with did not provide any different interpretation.

**MR. OSBORNE:** Have we received any dividend payments from either of the other two companies, that part of the agreements had indicated that dividend payments were to be made?

**MR. LEWIS:** Yes, we have received dividend payments on a scheduled basis from Northern Harvest, the total amount, Brian –

**MR. MEANEY:** It is \$2.4 million.

**MR. LEWIS:** It is \$2.4 million repaid so far by Northern Harvest. Cooke, of course, we are a long ways from receiving dividend payments from them. They have a requirement for dividends, but they can cover that with excess capital investments beyond what the expectation of when the project commence was, which you referenced previously. Northern Harvest has been paying on schedule their dividends to date, as well as repayments – or I guess it is redemptions of the preferred shares. They are meeting their obligations in terms of repayment.

Gray aquaculture, because of the circumstances they are in, has asked for a deferral of their repayments, which we have not yet approved until. We have asked for a business plan, an updated business plan, from them that is satisfactory to us before we consider recommending the deferral.

Cooke, as I said, is a nice ways away from any expectation that they are going to pay dividends or repay the preferred shares.

**MR. OSBORNE:** Okay.

If Gray does not pay, what protection is there for the Province?

**MR. LEWIS:** It is an equity investment. It is not a loan to them; it is equity. In the event of a receivership, we would be the low end of anyone getting paid back. They have managed to secure financing, they are turning their business around, and the best expectation for the Province is that they repay from a successful business.

**MR. OSBORNE:** Okay.

What measures have been put in place now to ensure that the department is receiving financial statements and other requirements, as had been outlined by the Auditor General, that had not been – due diligence was not provided by the department in many instances.

**MR. LEWIS:** Well, I think the management of it, in terms of the day-to-day administration, was probably not as effective as it could have been. The Auditor General certainly pointed that out to us.

We have developed a policies and procedures manual that has a checklist and requirement for annual reviews and so on. We have identified two people in the department: one person in our Planning Division who will be managing the requirements from companies, and also an administrative assistant to Brian actually, who will be ensuring that the files are properly managed – better managed. We have set up a new TRIM system for the management of files and a series of checklists. It is all in the policies and procedures manual that we developed.

I guess one of the things, previously, was a lot of these reports would come to Brian. Brian would email them to his counterparts, to the people in the other two departments who would review them for us. So when the Auditor General came looking for the records, we were not able to provide complete records of whether we had received all of those and whether in fact they had been reviewed.

We could show that it went to somebody, but if they did not have any concerns or if they did not reply, the structure was not set up as well as it could have been in terms of ensuring that all the boxes were ticked. We have developed appropriate structures now, checklists and so on, and systems to ensure that all the boxes are ticked as we go forward with the programs.

**MR. OSBORNE:** Okay.

**CHAIR:** We should go to a government member.

**MR. PEACH:** I have a question with regard to – I am looking at the map here that you have with the salmon and the mussels. In Placentia Bay, we have mussel farms out around the islands there, and it looks like that is the two that are dotted out there in the estimates area.

Are those farms very active now, can you tell me?

**MR. MEANEY:** That is Merasheen Mussel Farms. They are operated by a company that is based out of Triton. They are a very active company. In addition to that, they have recently developed additional sites near that area for oysters as well. They are trying to develop oyster operations there.

On the South Coast, including Placentia Bay, it is very different growing conditions than the Northeast Coast. That provides continuity. So when their mussels are not of the right size in the Northeast Coast, the mussels on the South Coast and Placentia Bay may be of a better harvestable size. So it works for continuity of supply for the growers.

**MR. PEACH:** Isn't there a small operation at Arnold's Cove as well, the Warrens or somebody there?

**MR. MEANEY:** There was. They are not active.

**MR. PEACH:** They are not there now, are they?

The other question with regard to cod fish, back some time ago – I know I was with rural development back a few years ago now – there

was some cod farming that started in Trinity Bay near Dildo Island and those places. The Williams had it there. That just afterwards folded.

Was there any reason why? Was it financial problems there or was it that they could not just rear the cod there?

**MR. MEANEY:** Post-moratorium there was a lot of interest in trying to extract as much value from the little bit of fish that was available. One of the things that we worked with some of the growers – and prior to the moratorium as well – was that a lot of people expressed interest that we get a lot of fish in August, the flesh quality is not that great, there is soft flesh. If we could hold these fish and bring them to market later in the fall when the fresh quality improved and also they had to wait, there could be a differential of maybe two-thirds a better price selling the fish in October, November as opposed to late August.

So we worked with quite a number. I think at one point we may have had twenty-five farms scattered around the Province. These were traditional cod fishermen using cod traps who would take a portion of their catch and put it into an open pen. They would feed it usually with herring or mackerel. They would ongrow it through the fall months and then sell it for a better price later on in the year.

A number of people found that this did not work with their fishing system. It may have interfered with other fishing activities or other activities they had. The sites may not have been as great for holding the fish as possible, so quite a number of them fell off, did not bother to continue on.

We still have one, a Mr. Seward, in Little Heart's Ease who started with the program, as I say, in the late 1980s and continues to ongrow fish today. There is still some interest in the Baine Harbour area. Every now and then we get some interest from that, but it has sort of fallen by the wayside.

**MR. PEACH:** So the same thing happened in Placentia Bay with the one that was in Long Harbour at one time. I think, though, the problem there was something to do with the



depth of the water and cold water, the crystals in the water, was it?

**MR. MEANEY:** I cannot recall the specifics of that particular farm, Sir, but I could find out and pass the information on to you later.

**MR. PEACH:** Yes.

There were quite a few surveys that were done back in the early 1990s and some of the ones that we looked at through Dorset Fisheries, for instance, they were looking at roe-on-kelp and things like that. It seems like in Placentia Bay and in Trinity Bay we just cannot seem to get the aquaculture up and running like you can in the other parts. If you look at Notre Dame Bay and the Connaigre Peninsula, it seems like they just ran with it there and it grew and grew and grew, but in the other areas where they did a lot of surveys it never ever got off the ground.

Are there still surveys ongoing now for the different things in Trinity and Placentia Bay? I know I heard there a while ago, myself and Mr. Jackman talked to some people about starting aquaculture up towards Marystown, up in that area up there. So is there any other exploration going on besides that?

**MR. MEANEY:** In Trinity Bay there is very little – I mean, there was a farm there in Cap Cove that was dormant for quite a number of years. The gentleman who operated that was very ill for a number of years. He has since recovered and retired and he has that farm up and operating and expanding it again – it is a mussel operation.

The Trinity Bay area, when you look at site opportunities there are a lot of oceanographic features that you have to look back in terms of the presence of ice, for example, during the year, how ice moves in and out of that area, and how water movements are. So I think there is certainly more interest in expanding the mussel industry, but the existing mussel industry right now is really trying to focus on expanding within their own reach. For example, in the Green Bay area they have the support services, they have the wharves, they have their warehousing, and they have their trucks and that. So they will expand within that reach first before

they will expand out to elsewhere in the Province.

In terms of Placentia Bay, as I indicated, the Merasheen Mussel Farms is now expanding into oysters. They are looking at also some areas in the St. Mary's Bay area with oysters, and a major oyster operation in around Merasheen Island – one of the largest in Atlantic Canada at the end of the day – and that is quite an exciting piece of new opportunity there.

Again, as you alluded, we have had expression of interest from Grieg Seafarms that are here on the Island. They have done some work in Marystown and are looking at sites again in around the Baine Harbour, Merasheen, and Long Harbour areas. They are doing some of the exploratory work to see if there is potential for expansion in those regions as well. So, yes, there is continuing activity and interest in expanding the industry.

**MR. PEACH:** What makes it so different – probably you just already said it – in the Placentia Bay and Trinity Bay, but in the Connaigre Peninsula? I will just go with the Connaigre Peninsula; I am pretty familiar with that area. What makes it so different up there with regard to salmon and we cannot do it in the Placentia Bay? Is there something there with regard to the depth of water or is it something to do with the coldness of the water? What is the difference?

**MR. MEANEY:** We have done quite a lot of research, particularly on water temperatures and oceanographic conditions in Placentia Bay. We do believe it has potential for expansion.

The SmartBay project, as an example, is another great piece of information that has provided a lot of good oceanographic work in that region. I think we are to the point – two things are happening. One, the Connaigre Bay is getting very mature. The companies are comfortable. They have expanded there. They have good production. They have the processing plants and the infrastructure set up so that they are in full-borne commercial production and now that gives them the opportunity to look elsewhere in the Island and what other opportunities.

We believe there is a lot of great potential in the Placentia Bay area. There is a lot of great potential west of Bay d'Espoir towards the Burgeo area, and certainly these have the oceanographic – there are lots of places in these areas that have good deep water that new farms can be expanded on, but I think it is a – these companies have a growth plan that requires significant investment and you have to have measured growth process for expansion.

**MR. PEACH:** I guess they want to try to keep it in the location where it is more operable for them.

Do we have any cod farming on the go now throughout the Island? Are there many or is there any? I do not see any on the map there.

**MR. MEANEY:** There is just one cod on-growing project, as I said earlier, in Little Heart's Ease near South Port. That gentleman has been involved in the industry, I say going back to the early 1980s, and he continues to supply – he is a cod fisherman, he takes a portion of his catch, doubles its weight, gets a better price for it three months later. He intends to stay at that, but we have had no other expressions of interest in expanding that.

**MR. PEACH:** In my district where it is adjacent to the Connaigre Peninsula, especially on the Burin Peninsula area, Terrenceville area and Grand Le Pierre, there was a lot of signage of the farmed salmon that was showing up in the rivers and in the brooks there. I know that is probably a DFO thing, but I have not heard anything about it lately. Has a lot of that been caught up or has it just died off, or what is happening?

**MR. MEANEY:** The fate of escaped farmed salmon is very poor in terms of – one of the things to understand is these are truly domesticated animals. They have only ever fed on a pelletized feed. It looks something similar to dog kibble, if you like. They have no natural instinct or have no knowledge of how to hunt for food, so their fate in the wild is very limited. They tend to end up in poor condition. They do not feed well. They do not understand foraging on fish and other species. When we have recaptured escaped fish they generally have things in their stomach that look like a food

pellet. Small mussel shells, rocks, and caddisfly houses near brooks. So they do not do well.

We are working co-operatively with DFO on what may have happened to that escape that happened in 2013. DFO established a counting fence at Garnish River. They are looking to see what, if any, impact or if any farmed salmon actually returned to that area because that is where the reports came from originally. As well, we are co-operating with Memorial University and DFO in looking at a genetic study across the South Coast in terms of determining what is the genetic structure so we can better determine what fish are coming from what origins. So we will be working with that to see what, if any, impact is escaped salmon on the wild populations.

That being said, our role as a department is to the maximum, to the extent possible, reduce the opportunities for escape. We were the first jurisdiction in North America to enact a Code of Containment. We did the work here in conjunction with the Ocean Sciences Centre, our staff, and the Marine Institute to determine what are the key factors in escape? They were determined to be equipment failure, net failure, and human error. We have brought in measures under the Code of Containment to minimize those to the absolute minimum.

For example, we are the only jurisdiction that does regular net testing of all cages. Every single cage that is in use is tested for tensile strength to make sure it meets the manufactures specification. In addition to that, we are the only jurisdiction that regulates both mesh size and fish size going in the cages. When a cage is stocked it has to have a certain mesh size, and the fish stocked in that have to be a certain minimum size.

The theory was you put in an average weight. If you put in fish that were averaging fifty grams, that means there are some fish in there ten grams and there are some fish in there 100 grams. So if you put in a two-and-a-quarter-inch mesh, then the ten-gram fish could swim through. We have removed that and said at sixty grams here is the size of mesh that you cannot use, so no sixty-gram fish can escape that cage.

The growers are required to do regular inspections of their mooring system and their cage structure. We do inspections. We have our own staff going out there. We take that issue very, very seriously, and we report on that on a regular basis. There is a working group that involves the aquaculture industry, both levels of government, and the NGO communities including the salmon angler groups, First Nations, and the Newfoundland Wildlife Federation. We work co-operatively to find mechanisms to ensure that we, to the absolute maximum possible, reduce escapes.

**MR. PEACH:** There was a growing concern in the English Harbour East area and in the Terrenceville area because there were some showing up in the rivers there. Some of the anglers were saying it was going to be a danger to the salmon that go up the rivers and things like that.

What you are saying is these salmon probably did not have any big effect on the wild salmon. The other thing is the ones that were there, I have not heard talk of them this year at all. Last year there were a few but I have not heard talk of any this past summer being seen in the area. I guess probably they just died off, did they?

**MR. MEANEY:** That is the presumption. As I indicated earlier, if you turn – as we had happen, for example, a few years ago 100 cows out in the Foxtrap area got lost and they all died. If you put domesticated animals into the wild with no capability to survive, they are not trained to survive in that, their faith is very, very poor, and their survival is very poor.

There are quite a number of factors, but we recognize it as a concern. DFO and ourselves, and as I said Memorial University, have entered into a multi-year study to look at what, if any, impacts. Those fish, for example, that you talked about that may have gone up a river a year or so ago, were they actually spawning fish? Were they actually capable of spawning? Were they ready to spawn? If they did, were they successful in interacting? If so, what does the resulting prodigy look like? Those are questions that we want answered, DFO wants answered. So we are monitoring it on a very close basis.

**MR. PEACH:** That disease that happened in 2013, at that time, did that affect the market much? The market today as opposed to in 2013, is there much difference in the markets now? Are they coming back to where they were?

**MR. MEANEY:** In terms of the market, the issue we had in 2013 had no influence on the market. Market prices are set by consumer demand, and consumer demand for Atlantic salmon throughout North America in particular, which is our largest market, continues to grow. It has not impeded.

We have lost opportunity because we did not – last year in particular – have that many fish to be able to go to market, but the industry has rebounded. As Mr. Lewis pointed out, this year we are back to very, very high levels. We should be back to record production again in 2016.

**MR. PEACH:** Okay.

One more question, Mr. Chair.

**CHAIR:** Mr. Peach (inaudible) –

**MR. PEACH:** Just one more question: What percentage of that market that is in the salmon is in Newfoundland? Is there a big percentage?

**MR. LEWIS:** That was the point actually I was just going to make from your previous question. The world supply of salmon is – we are a very, very, very small percentage of the world supply. In our peak year we had, I think, around 22,000 tons of salmon produced. This year, I do not know where we will be. It will be just under –

**WITNESS:** It is 16,000.

**MR. LEWIS:** Yes, 16,000 tons, say, or 18,000, something like that. Norway, by comparison, is producing 1.2 million tons at the moment. Scotland is 200,000 or 300,000 tons. Chile is producing huge amounts of salmon. We are not the biggest player in the country by a long shot. British Columbia produces significantly more Atlantic salmon than we do.

We are a pretty small player so we are really a market taker, although now our companies that are producing salmon here are harvesting them

and marketing them in such a way to maximize the value of those salmon. They are a very, very small percentage of the total amount of salmon, say, going into the US market.

Most of our salmon goes to the US or Canadian markets. Salmon is now the number one seafood in the US. It has exceeded tuna as the main seafood product consumed in the United States.

**MR. PEACH:** So are they going out and coming back? Are they going out to the market in the States and coming back to us after? That is what happens to other products that we have.

**MR. LEWIS:** It all depends, really. I was in Colemans a little while ago and picked up some salmon. They took them out of a Northern Harvest Sea Farms box at Colemans in Mount Pearl there recently. I am assuming they were local salmon.

Our salmon is sent to distribution centres. So if Cooke takes their salmon, they will take the salmon and they will send them out to a distribution centre. They could very well come back again because the big stores like the Sobeys and the Dominions and so on, they are all supplied by central distribution centres.

If Skipper's or somebody is selling salmon, most likely they have some arrangement and they are picking them up locally. Salmon could be going out and coming back the same way as other products that we produce could be as well. Like lobsters, for example, that is a really good example.

**MR. PEACH:** What I was trying to identify is that with Cooke Aquaculture, do we have a percentage of direct market to Newfoundland from them? To the stores in Newfoundland, what percentage of their production would go to –

**MR. LEWIS:** Do you know, Brian?

**MR. MEANEY:** It would be very difficult to determine that. The salmon aquaculture industry is kind of different in terms of its marketing process. Because you have access to product year round, most of these large companies have contract sales, for argument's sake. So the

Loblaws chain may put out a request, say, that I need X thousand tons for the fall promotion for X dollars per pound. So companies will bid on that. Their production for that three-month period may actually go to one customer.

As Mr. Lewis pointed out, most large retail chains use centralized distribution, so that if you want to have any product serviced by the Loblaws chain it all has to be sent to a warehousing area in such and such a place, then it gets distributed. There is a growing effort amongst restaurants here in St. John's, in particular, and elsewhere across the Province, and there a couple of small purchasers that will go around and bring in regular shipments, for example, as Mr. Lewis pointed out, to the Loblaws chain. Loblaws is actively trying to source as much as it can of seafood as locally sourced, and so are many of the restaurants around.

So there is a growing effort, but it all comes down to being able to ensure that you have a market to be able to justify going across the Province picking up a variety of products and providing them to a service in a particular supermarket chain or restaurant chain anywhere in the Province.

**MR. LEWIS:** I think it is fair to say that we have historically been a seafood exporter, and of course we will always be a seafood exporter because we produce far more seafood than we could consume locally. Now, when I talk about 22,000 tons of salmon, that is almost 50 million pounds of salmon; that is ten pounds of salmon for every man, woman, and child in Newfoundland on an annual basis.

That is a lot of salmon, and most people are not eating that kind of amount of salmon, so most of it has to be exported out of the Province. Whether in fact a small amount goes to local suppliers and local retailers and so on, that is really a value chain sort of question, what makes the most sense in terms of supplying that chain.

**CHAIR:** Mr. Murphy – we have been going about twenty-one minutes (inaudible).

**MR. MURPHY:** Thank you, Mr. Chair.

I have a few questions for you this afternoon. Good afternoon, gentlemen. Thanks for appearing today.

In spite, I guess, of the growth of aquaculture in the Province, and it has shown positive steps, there are still many questions to be asked when it comes to regulation of the industry and, in particular, the granting of monies towards the promotion of the industry. I wanted to come back to some of the recommendations, but I do have some questions as well outside that box that is in this report for you, too.

I wanted to come over to page 61 of the Auditor General's report and come under the monitoring the terms and conditions of the investments under the Aquaculture Capital Equity Program. It says here in Finding 7 – I will not read the whole paragraph. It says here, the last line: "As a result, the Department has not effectively monitored the performance of the three Corporations which Government had invested \$22.8 million under ACEP."

I wonder if you could explain that, what had happened there where the department had fallen through.

**MR. LEWIS:** I guess what the Auditor General is saying is we could not demonstrate that we were always receiving the financial information from the companies on a timely or complete basis. They are required to send in financial statements on a quarterly basis and annual audited statements. We always get the annual audited statements. The quarterly financial statements that come in oftentimes came by email and so on, they may have been circulated by email, and we did not have a good trail to be able to demonstrate that they all came in and were effectively circulated and managed that way.

On that basis, the Auditor General said we are not effectively monitoring the performance. Now, we get all of the audited financial statements. Because of the recommendations of the Auditor General – I think I said previously, these are probably the most significant recommendations in my view that the Auditor General pointed out to us – we have developed a policies and procedures manual. We have identified specific staff to ensure that the trail is

not only a question of receiving the materials and circulating it to the right people for review, but it is also being able to demonstrate that that is being done.

That, I think, is one of the areas where we could do a better job, and that is why we have taken this action on the basis of the Auditor General's recommendation to put in place a better system. He said, basically, does not have a systematic process. So the whole idea of the policies and procedures manual identifying specific staff, developing a new file management system, electronic file management system and so on under TRIM is to put a more systematic process in place so that we can demonstrate that we are meeting those requirements.

**MR. MURPHY:** Will you have those requirements in place before you grant the next loan to the next company that comes in?

**MR. MEANEY:** Yes. That is the short answer. Since the Auditor General released his report, we have been working to ensure and get those all put in place as quickly and as humanly possible. As Mr. Lewis pointed out, we now have the dedicated personnel to address those and the process is in operation today.

**MR. MURPHY:** Okay, all right.

Carrying on down there, I will leave those questions there for now. I might have a couple of more questions as regards to the process later on.

In Finding 10: "COSI was not entitled to off-set (not pay) dividends totaling approximately \$1.4 million as at December 31, 2012 because it did not meet all of its commitments under the Contribution Agreement. Specifically, COSI did not complete a hatchery as per the terms of the agreement."

So, you had an agreement in place with COSI to do this, and that was a condition, obviously, of them getting the money. Am I right on that?

Okay, so they did get the money, but they did not follow through on the agreement. So what did the department do in this particular case?

**MR. MEANEY:** Just for a point of clarification, there were no funds required for the hatchery until the hatchery was actually completed.

**MR. MURPHY:** Okay.

**MR. MEANEY:** In the original plan for the hatchery the time frame was very aggressive and they had intended to get the hatchery up and operating as quickly as possible. They made the efforts to do so. They spent a lot of time finding the appropriate area, trying to track down an appropriate water supply, getting access to particular sites.

They wanted something in that South Coast region that was reasonably close to their farming operations. They had spent a lot of time, effort, and financing in the Terrenceville area looking at a potential site down there. They finally settled on an area that was in St. Alban's, but by the time they got the work done, got the hydrological work, the water testing, started the process of getting approvals from communities, from Environment, and elsewhere, they had exceeded a time frame that they had planned to use. In the meantime, they were shipping fish in from New Brunswick to stock their cages.

They met with us and they said, look, we need additional time, we intend to build a hatchery, we intend to get up and operating and if we do not, we will pay you money back. They made best efforts to do that. We ran into a lot of problems: the piece of property that they actually wanted was actually owned by the federal government under a 1966 agreement for federal harbours. It took a number of months to get that reverted to us.

The issue of getting the water from the town supply – they did exceed the time frame that we agreed to, the amendment of the contract. They did follow through, but in the strict sense of the word within the time frame and the agreement that we had set in place they had not completed a hatchery meeting the terms of the contract. They did finalize that and have the hatchery built the year following that agreement. So it was two years late overall, about a year later than the amended contract, but they did meet the conditions at the end of the day.

**MR. MURPHY:** Okay.

In that agreement though, with the \$1.4 million investment, does that amount have to be paid to government or was that just an outright grant?

**MR. MEANEY:** The dividend offset process worked in the following manner. Once they had their initial target of their capital investment met, anything additional in new capital expenditures above and beyond that could be utilized to offset the 3 per cent dividend owed annually.

In the first number of years they had finished their original capital expansions and I think it was \$39.2 million in capital expenditures had to be met. Following that, anything that they actually built in Newfoundland, new capital expenditures not related to anything in the original contract – that was verified by an independent auditor certificate.

On a go-forward basis – and the dividend goes in a cumulative basis. If they had expended \$2 million in a given year, that would be cumulative. If they were required to repay \$300,000 a year, that \$2 million would go against the \$300,000 on an annual basis for a number of years, if you follow where it was going.

What had happened is that the company had provided, in their annual audit of financial statements, a listing of new capital additions with each of their new audited financial statements. The contract originally said that they would provide an independent auditor certificate identifying new capital expenditures.

In consultation with our sister departments, the company came to us and said, look, we are providing you audited financial statements by an independent auditor. This shows what our capital is. Can we use that for the offset? It was agreed that was acceptable.

I think in the process during the Auditor General's review, there was a point in time where that auditor certificate identifying new capital expenditures that would offset the dividends due was not showing up in the file.

**MR. MURPHY:** Okay.

**MR. LEWIS:** Just to add to that. In terms of the hatchery, the department and government were interested in seeing a hatchery built here. It is bricks and mortar on the ground. A lot of the investments in aquaculture are cages, boats, movable pieces. A hatchery is capital, built on the ground. It is not easily movable. It really shows a strong commitment. When you are building hatcheries, you are sort of all in. Cooke had the ability to bring in salmon from elsewhere. There was a keen interest in seeing the hatchery built. There were tight timelines on it.

If they had not followed through with the hatchery, it would be a different issue I think – they certainly followed through and built an excellent hatchery, which is operating and producing smolt on an annual basis for farm operations in the Province. They did run into some unanticipated issues in terms of the timing of getting the hatchery built. Not of their own volition, but issues with land, issues of finding suitable supplies of water, because these hatcheries use groundwater systems and so on.

That delayed the project, but ultimately the project was completed. The hatchery is on the ground and it is producing fish for farm sites in the Province on a regular basis now.

**MR. MURPHY:** Okay.

In Finding 12, also on page 61, it says, “The Department paid GAGL approximately \$550,000 when GAGL claimed a vessel in the amount of \$1.1 million that was not an eligible capital expenditure under the Contribution Agreement.” What happened here?

**MR. MEANEY:** When the company was developing their proposal for expansion, they identified to us early in the process – when we develop these projects, it generally comes forward with a concept to say here is what we are interested in, here is the scope and magnitude, and the ACEP criteria requires a very detailed, specific business plan to support that expansion before government would consider an investment.

During that process of getting that detailed business plan, the company came to us and said as part of our ability to expand here, we are

going to need a support vessel. There is currently an older ferry that is being retired out of the New Brunswick fleet. It was the Grand Manan queen or something like that it was called. This is what we want to identify to be utilized as our new service vessel for the operation.

So they advised us of that upfront, that this was their intention and depending on the timing, and the timing of getting the proposal together, getting it approved through Cabinet and getting it all put in place, it took a longer period of time. In the interim, the parent company went and purchased a vessel and started the renovations they needed because they were committed to coming to Newfoundland.

When the project was finally approved, they provided the documentation and support for the purchase of that vessel. In the contract Contribution Agreement that was signed with the company, it indicated in there that there were to be no inter-company transfers of assets that would be paid under the process.

The reality was when we looked at that and we had an independent auditor have a look at this, the parent company was a hatchery operation. It was all land based. They run hatcheries in Central New Brunswick. They did not have any need for a ferry-type vessel, a small ferry to support their business. The only reason the company went and purchased a vessel at the time was for their Newfoundland operations. It was an opportunity. The owners took it upon themselves to purchase it and bring it into the Newfoundland operations.

When it finally was approved, we looked at it. It was deemed from our perspective and our sister partners’ to be a legitimate business cost. We asked for an independent assessment and said yes. In technical terms and that condition of the contract, yes, it was an inter-company transfer, but it was certainly one that was intended in the business plan to come forward. There was nothing untoward and it was done at fair market value, so the department deemed that it was an eligible cost.

**MR. MURPHY:** Okay.

What year was that? That was in – it does not say here exactly. Was that in 2012 as well?

**MR. LEWIS:** No, it was before that. I think it may have been 2008 or 2009.

**MR. MURPHY:** Okay.

I will leave that for now. You can just supply it later on.

**MR. LEWIS:** Okay.

**CHAIR:** Mr. Murphy, we should move on to a government member.

**MR. MURPHY:** Sure.

**CHAIR:** Before we proceed, Mr. Lewis and Mr. Meaney, typically there is a departmental response to the Auditor General whenever there is an AG report done. I cannot find the departmental response that would seem to include all of the statements that you are providing.

There is something which says the response from the minister, but it is very brief and it includes something called the Aquaculture Capital Equity Program policies and procedures manual. Was something else submitted in addition to that?

**MR. LEWIS:** I do not think so. Our response is published at the end of the Auditor General's report, right?

**CHAIR:** Okay.

**MR. LEWIS:** We discussed with the Auditor General more of the details of the background on a couple of occasions. Our response was more concise. As Mr. Chair indicated at the beginning, this provides an opportunity for further background and so on to the issues that are being raised.

I think the Auditor General captures a lot of the background and what the department advised in the text of the Auditor General's report. It says the department indicated this or that or whatever, as you read through the report. So our response at the back was just specifically on the

recommendations that were put forward by the Auditor General.

**CHAIR:** Why I am asking is because usually there is a departmental response. The department either agrees or disagrees, or has taken some action, or has not taken some action. The Committee, then, has the benefit of that.

What I am hearing today in response to some of the questions is that – Mr. Lewis, you said that is what the Auditor General says. That implies that you do not necessarily agree with him. If there is anything in the report you do not agree with, then we would prefer to know. Otherwise, it is not very helpful to the Committee when we get long speeches on particular issues.

We only have until 4:30 o'clock, which is fine. We can stay until 4:30 o'clock. The long speeches in response to a specific question the Committee members are asking become less than helpful when you forget what the question was at the end of the speech. If we had the departmental response, a written response, it would be more helpful.

Is there anything in the AG's report –?

**MR. LEWIS:** We could be a bit more concise, I guess.

**CHAIR:** Is there anything in the Auditor General's report that you disagree with?

**MR. LEWIS:** No, we do not disagree with anything. The one question that we did sort of scratch our heads on was the one around the financial need; was there a definite financial need for the funding? We do not disagree with the Auditor General. We understand the point the Auditor General made.

Looking at the criteria that are listed, you could certainly interpret that as, if you do not need the money, government is not giving you the money. From a strict financial perspective, we totally understand that interpretation.

He goes on in the report and indicates that we understand what was probably intended here, which was to kick-start the aquaculture business, but the criteria, the way that you would read those, do not match that objective. When we



looked at it we would think: Do they need this financial incentive in order for the project to go ahead? Yes, otherwise they are going to do it somewhere else. That is different than: Do they need the money because they cannot raise the money somewhere else?

There are two different interpretations the way the criteria were written. We do not disagree at all with what the Auditor General is putting forward in how this is being interpreted. It is probably the right interpretation, but it is not the interpretation that we were operating on. As he indicates in the text of his report, it is probably not what was intended in the first place.

**CHAIR:** I think the principal issue for the Committee and maybe for the AG will be: Is it within the guidelines, if the guidelines are provided and these are policy issues established by government? Is the department operating outside of its own guidelines or within its own guidelines? If it is outside of the guidelines, then what does that say?

**MR. LEWIS:** Right.

**CHAIR:** I would like to go to another member now. I will have questions at the end.

Mr. Hunter.

**MR. HUNTER:** The Notre Dame Bay area; shellfish takes in a lot of my area in there.

Over the last number of years I have been talking to the producers over my way. They were doing a bit of complaining about applying for financial help and the criteria to meet it because it was so time sensitive to them. They only had a certain time frame to seed, grow, and harvest. They find themselves lots of times having oversized mussels, which is no good to them.

With the sensitivity of timelines and that, is it any different in applying for funding that would make it not the right time for these producers to apply for funding? I do not know if they can meet the criteria because they said the funding is there today. I do not want it today; I want it at a certain time. Some of the producers said, well, I cannot apply for it because the timing is not right.

**MR. LEWIS:** I do not know that there is really a cycle in terms of when is the best time to ask or to seek funding. Obviously, if it is an assistance program – not the Aquaculture Capital Equity Program, but let's say it was Fisheries Technologies and New Opportunities Program or something, and they wanted some assistance for market development or whatever. Usually those funds are provided in the Budget process. So you would get a lag in the spring by the time your budget gets approved, goes through Estimates Committee and all that kind of stuff, before you would be approving projects.

So there might be some cycle there. If it is a question around applying for site licences or approvals for sites for aquaculture operations, there are a large number of departments and agencies, federal and provincial, that are involved in that process. It is a fairly time-consuming process. It will take a number of months to get approval for a new site.

For mussels, for example, one thing would be Transport Canada. What are the impacts on vessel traffic? They have to look at it. These days, I do not think – the head office is in Halifax now to deal with those issues. There are time lags.

I am not 100 per cent clear on the question, whether it was around we need a new site, or if it is we need some money to go to do some marketing for mussels for the next two months, or something along those lines. I think we are fairly responsive on those usually, but maybe not all the time.

**MR. HUNTER:** It is not so much the marketing. They are running out of areas to grow mussels in. Just as an example, a couple of years ago they were looking at deepwater farming. They could move into other areas, but this is all below-surface farming. The type of equipment they needed to do that was a lot different than what they were doing in shallow water.

They need to apply for funding for this. They were saying they do not meet certain criteria, and the time frames just do not work out for them. Where did we go with that project or that venture that we tried to do a few years ago? Did it ever go anywhere?

**MR. MEANEY:** There have been a number of projects; one in particular, in the Exploits area that looked at deepwater technology and is operating today. Sometimes the challenge with a new project and new technology is trying to get all the partners plus the proponent together and get the costs sorted out.

There are quite a number of opportunities. As Mr. Lewis points out, there is ACOA and other places that can provide – and sometimes, yes, it takes a bit of time and effort to bring all the players to the table and get a project funded and starting as quickly as possible. We encourage the growers to work with our staff, and the staff of other departments like ACOA and BTCRD, to try to get those projects together as quickly as possible and try to get an answer back to them as quickly as possible.

**MR. HUNTER:** Is anybody doing it yet?

**MR. MEANEY:** One operation, as I say, in Exploits Bay.

**MR. HUNTER:** Okay.

**MR. MEANEY:** That is operating in deepwater now.

**MR. HUNTER:** Yes. Okay, I know what you are talking about now.

That was that part. The other part of it all relates to criteria on funding. There a few years ago, out my way, they were trying to do some experiment with scallops and lobster. That was all time sensitive as well, particularly with the experiment.

Some of these guys hired scientists to do the research for them, but could never avail of funding to go any further than they did with their own money. So that has all pretty well died off, there is no more research and development of scallop and lobster in the Province?

**MR. LEWIS:** Do you mean aquaculture for scallops and lobster?

**MR. HUNTER:** Yes.

**MR. LEWIS:** Brian, do you know?

**MR. MEANEY:** The scallop aquaculture business, we, as a department, invested in excess of \$5 million over a significant period of time to support that sector, along with other federal and provincial funding partners. We did a step back – and I cannot exactly remember the date, but we did an economic analysis and it basically showed that scallop aquaculture was just not economically viable with the technology and the prices that were available at that time. All the information, all the science, is there if somebody wants to pick it up tomorrow and dust it off, and if something is different in 2015 than it was in 2000 it may be worth a look.

In terms of lobster, people have tried lobster aquaculture around the world; nobody has been able to get it right yet. So it is very much small research on the side of the bench at a lab at the Ocean Science Centre as people are still having a look at it, but there is no thing in a commercial sense together today.

**MR. HUNTER:** So it is not something the Province would push to try to research and develop, to get private individuals involved? It is not something that DFA would go out there and try to encourage.

**MR. MEANEY:** We are there to support the entrepreneurs and the people with the ideas. If there is somebody who has a proposal we would be more than happy to sit down on whatever programming we can identify, if it is a worthwhile approach, we would be happy to try and support it to the best of our ability.

**MR. HUNTER:** Yes, I see most of it is pertaining to the finfish.

**MR. LEWIS:** Just to add to that – years ago, back in the 1980s and probably early 1990s there was a sort of a shotgun approach to aquaculture development in the Province. There was a large amount of effort spent on multiple species – everything from eelpouts on up. It really was not getting very far, so the strategic plan from around the late 1990s into the early 2000s was to retrench all of that and focus on four key species that had the best opportunity for commercial development. The focus was on salmon, steelhead trout, cod – at the time – and mussels.

Now, I think we are making substantial progress on the salmon. We do see that the mussel sector – there is a lot of growth opportunity in mussels that we are not achieving. I think over the next few months we will be trying to figure out if there are ways to sort of kick that up to the next level as well.

We are starting to see interest in other species again now, as Brian indicated just a few minutes ago. We are seeing an interest in oysters in Placentia Bay and in St. Mary's Bay. We are seeing some interest in soft-shell clams on the West Coast. We are starting to see some companies interested in diversifying out into species. To the extent that we have programming that can assist, we are assisting.

**MR. HUNTER:** (Inaudible) any other questions.

**CHAIR:** Mr. Cross, you have not asked any questions yet.

**MR. CROSS:** Probably, to consume the rest of this time, there are a couple of questions. You had referred back to the 1980s and 1990s and probably into the 1990s and early 2000s. I remember in Wesleyville – it is in my district – there was a finfish hatchery on the wharf there. Basically they were hatching lumpfish for release into the wild. I do not know what the market is for lump eggs these days, but it was experimental I suppose at the time, that is the nature of it.

I had question earlier about if some of these other things are back on now, people would be willing to invest. Is it the same procedure for this? Although this is an equity program and that was more of a research program. How would that fit with that, or is it totally out in a different field?

**MR. LEWIS:** Well, the Aquaculture Capital Equity Program could accommodate some projects like that, but they would have to be fairly substantial. The minimum amount I believe for finfish aquaculture is \$500,000 and for shellfish aquaculture would be \$250,000. It would have to be substantial projects; it is not \$20,000 or \$30,000 sort of thing.

The program is open to mussel and to other species. Right now, the only real projects that we have funded so far have been related to salmonids – salmon and trout – and the one that we did for net washing that Brian mentioned previously.

**MR. CROSS:** Okay.

In reference to the amount of hatching that was done there, that was in a caged system on a wharf. I know there has been some debate as to the contained cages on land versus the open cages with regard to losing fish to the wild, escape, and all that in the questions we have talked about. Is there any investigation now or any groups now investigating or applying for finances to attempt the landlocked cage system?

**MR. MEANEY:** We have had no applications. We have met with one company from the Middle East who specializes in constructing land-based aquaculture facilities. We have had a good discussion with them, but there has been no follow-up or no proposals coming forward for a land-based operation.

**MR. CROSS:** Okay.

Is there any evidence or any cost factor there? Would it be much more expensive to operate a land-based system versus the cages in the water? More capital, I guess.

**MR. MEANEY:** Certainly it is capital intensive. There are about a dozen to fifteen operations looking at Atlantic salmon and land-based operations being trialed around the world, one in Canada sponsored by the Department of Fisheries and Oceans in British Columbia. We are monitoring it very closely. There has been a number. One in Nova Scotia has tried and it had a bunch of technical problems. There is another one in Denmark that has had three attempts to try to get the farm up and operating, but either was struck with disease or mechanical issues.

There is a lot of interest around the world in this. The potential for particular markets, there may be, but certainly their technology is not proven and it is not commercially viable today from all the information that we have been able to monitor.

**CHAIR:** Mr. Murphy.

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

I only have a couple of more questions left. I have a child care issue that is after popping up so I am probably going to have to bail here, but I wanted to get this thought in.

On page 87, your response from the department, it says here, the second line, "Given the unique nature of each plan, the Department believes it is therefore appropriate to be flexible with the terms and conditions imposed." The first thing that popped in my head when I read that – I could see picking a project on the basis of its merits. The first thing that popped in my head was competition. The second thing that popped in my head was giving a company an unfair market advantage by doing that.

I am wondering, and I guess the question is for the department: You can see a strategic investment into a company, but should we be setting a baseline for all companies? I will leave that as an open-ended question in this particular case. I think if we are talking about giving loans out to one company, maybe \$10 million, or a loan to a company that might be \$1.4 million, either way some of these companies are playing off against each other in the stock market. They are all looking for investment. They are all looking for market share.

Are we in fact giving them a competitive advantage by doing this, by giving them loans? Well, even though it is still young, I guess I will say it, it is established here – not without some risks to it, at the same time. The question, I guess, here to the department: Are we being too flexible with the terms and conditions imposed? Are we giving somebody more market share? Are we being anti-competitive by trying to be competitive at the same time? Do you have a legal opinion on that?

**MR. LEWIS:** No, we do not have a legal opinion for sure. In terms of the context, the criteria we would see flexibility on would be the repayment, the time for repayment, and so on. We see each project as being different in terms of the scale, the time it takes to actually implement the project, the time to get to a first

cycle, how long they should pay back the funds over. Every business plan has its own projections as to what their cash flows are going to look like over some period of future years.

I could see where you might potentially have a maximum of X years as opposed to it has to be eight years or it has to be six years. Do you know what I mean? Projects may need some flexibility in order to be viable and able to repay the funds and so on. I do not think we would go with twenty-five years anymore. I do not know; it is not my decision. Ultimately, you make recommendations, Cabinet decides.

**MR. MURPHY:** Yes.

**MR. LEWIS:** That was a one-off. I do not think we will see that anymore, but you might see projects that will be twelve years. Every project will be different.

The program is available to all species. Even though it has been mostly salmon and trout that we have been doing projects on, but it could be on mussels. The payback on mussels could be completely different than what it is on salmon in terms of their ability to turn that around and pay back government and so on. So that was sort of where we were coming from in saying there needs to be some flexibility in the program.

Brian, do you want to –?

**MR. MEANEY:** Just by way of example, the Cooke Aquaculture proposal was coming from a standing start. They had no fish in the water and no infrastructure on the ground. If it takes you eighteen months to grow your first smolt to put into a cage, you have to develop your cages, your nets, gets your boats and everything else through the construction phase, and there is another eighteen months to get that fish to market. So from the time you start to the time you get your first sale, it could be somewhere between three and four years.

If you look at a retraction of shares that would be certainly very different than if you had a company expansion that already has cash flow and saying I am now at X and I want to go to X plus 30 per cent. Then the company has a cash flow and are not at a standing start. They are moving forward.

That kind of flexibility – on the first one you say, okay, we may have to give some bread or grace on the front end because until the first crop, you cannot expect any repayment. If you are an existing operator, then you already have cash flow and your terms may be somewhat different.

**MR. MURPHY:** Okay.

Your department, they have gone out and gotten legal opinions on this? Have they gotten good legal advice when it comes to giving – and financial advice for that matter when it comes to –?

**MR. LEWIS:** All the agreements and everything are all reviewed by the Department of Justice as a part of the process. If you go to Cabinet, then the Department of Justice provides input into the papers and all that sort of stuff.

In terms of competitive impacts, no, I do not recall that we have had any legal opinion on, is this project unfairly competing against someone else here or somewhere else in the world. No.

**MR. MURPHY:** Well I am just wondering like when it comes to entry into the industry, too, that sort of thing.

The other questions I have here – I wanted to ask you a couple of questions about the assessment of risk, too; when you go in to assess a project for risk, what factors you would be considering. I am thinking environmental here, too, now when I ask that question; for example, the use of pesticides on salmon for the removal of sea lice and the effect on the lobster industry, that sort of thing. What do you do in that particular process in the event of the licensing and construction of an aquaculture farming facility?

**MR. MEANEY:** In terms of the program itself and the financing, the risk assessment, there is a two-step process. The licensing piece takes into account everything from the environmental, oceanographic conditions, the water temperatures, the presence of ice, how water patterns move within the farm operation, what history of other aquaculture activity may have been there, what are the known disease profiles, are there farms adjacent, and what has been their

experience? That information is all part and parcel, and captured in the licensing process.

That provides us an input in terms of, if I would say, the biophysical and environmental risks, including the risk of disease. Does the company have the capability to provide proper fish health care, access to veterinarian services, et cetera? All that part of it.

That feeds into the business plan analysis that would be looked under the ACEP. We would have to see what are the mitigations are and where are the levels of risk? So if you are in an existing farming area – if you were to establish a farm in the Connaigre Bay or in Fortune Bay today, you have the advantage of ten years or so of information; the highs and lows, the issues, one site versus the other site, and what kinds of issues.

We have a greater level of understanding. The risk, we believe, would be somewhat mitigated, assuming the company has the appropriate – and identified in the business plan – technology, expertise, and processes in place to address it.

One of the previous members asked the question: What about Placentia Bay? Well, there we have zero history of growing salmon in a cage. So the level of risk, from an environmental perspective, has to be measured. You have to ensure, if you come forward with a business plan, that those risks are identified and they can be mitigated to the extent possible.

How would you then look at that in terms of what is the level of risk that the company is taking, their investors are taking, and the Province is willing to take in a greenfield development? I am not sure if that drives to the question you were asking.

**MR. MURPHY:** No, that is pretty good. All those conditions, obviously, would be affected, whether a government is going to give a yes or no to a farm like that, basically.

**MR. LEWIS:** Yes.

**MR. MURPHY:** Okay.

Mr. Chair, I do not think I am going to ask any more questions here now. I have to go. I will

leave it with you. It is not going to affect quorum or anything? You have enough people to carry on with it?

**CHAIR:** Well, we need four for quorum and that includes the Chair.

**MR. MURPHY:** Okay, so you are good?

**CHAIR:** Although it is a bit unusual to have Public Accounts proceed without Opposition representation.

**MR. MURPHY:** That is what I am wondering.

**CHAIR:** That is not my issue. My issue as the Chair is as long as I have a quorum – until we get the questions answered.

**MR. MURPHY:** As long as you are covered.

**CHAIR:** It is not a matter of me being covered; it is a matter of the Committee being able to function.

**MR. MURPHY:** Yes, okay.

I will stick around for a few then.

**CHAIR:** Do we have questions from a government member?

**MR. PEACH:** I just want to follow up on what we had talked about earlier; fish going out and coming back in with regard to the market. I am just wondering about the quality.

If you go into Sobeys, for instance, or Dominion, and you pick up a salmon and look at it, the gills on the salmon are white. That shows that the quality is starting to go down on that fish. You buy it, but it is hardly fit to eat. You do not get a taste like you would from a fresh salmon coming direct from the market.

It is the same thing with mussels. You go in and pick up a bag of mussels at Sobeys. You boil the mussels. Once you cook the mussels, probably 6 per cent or 7 per cent of the mussels sometimes are – I bought a bag there a while ago and I would say about 6 per cent of them would not open up. They were white inside when you did open them up. That shows again that the mussels are starting to rot.

Does anybody monitor that kind of a situation with the fish coming back in? I know there is good quality going out. It is like a fisherman on the wharf who goes out to his nets. He brings in the fish and it is alive in the boat. He sells it over the wharf. Once it gets sold over the wharf to the company, it probably does not get to the company.

For instance, Arnold's Cove processes the codfish. It goes in through Dorset Fisheries, but it gets caught over the wharf. It is put in a container on the wharf and it is there for two days. By the time it gets to Icewater, the quality is gone down to a B grade or a C grade.

The same thing happened here with the salmon that is going out and coming back in. Who monitors it to see what quality is going into the stores? I tell you, if the quality in the stores was being monitored, those mussels that are being sold, some of them would be taken off the market.

**MR. LEWIS:** That really is a food safety issue you are raising there. That would be under the Food Premises Regulations.

**MR. PEACH:** For inspection, under the Food Inspection Agency?

**MR. LEWIS:** It falls under the Department of Health, but it is enforced by Service NL.

**MR. PEACH:** Okay. I was just wondering about that.

One more question, Mr. Chair, if I can ask it, on lobsters. Back a couple of years ago, probably 2013 or 2012, the government put some money into Memorial University to do a study through the fisheries department on lobsters in Placentia Bay. I have not heard much on that. Where did that go?

It was to research to see what was happening to the lobsters in Placentia Bay, to see if they were coming back or what happened to them. I have not heard anything on that since. I do not know if the money was spent through the university and nothing was ever done on it or whatever. I have asked questions on it, but I am just wondering.

**MR. LEWIS:** I could not tell you. I will make a note and I will get back to you on it. It is not ringing any bells with me to be honest with you.

**MR. PEACH:** No, I do not think you were with the department at that time.

**MR. LEWIS:** Maybe not. Certainly I can check with my staff. If there was a project that was funded through our department, we can get the information for you.

**MR. PEACH:** Yes, I appreciate that because it was announced for Placentia Bay. As a matter of fact, it was announced in the House of Assembly, too.

**MR. LEWIS:** Okay.

We will follow up on that for you.

**MR. PEACH:** All right, thanks.

That is it, Mr. Chair.

**CHAIR:** Yes, I have a few questions. On Page 60 of the Auditor General's report, item 3 near the bottom says, "Government approved a \$5 million equity investment in Gray Aqua Group Ltd (GAGL) when the Corporation did not have a minimum private sector equity position of 20% of total assets."

What percentage did the company actually have?

**MR. LEWIS:** The Auditor General indicates that it was 3 per cent equity. The issue that I mentioned previously related to the smolt, the contribution of the smolt, and the value of the smolt to the project.

We had an independent accountant at the time who indicated to us that would count as an equity investment in the project. The Auditor General pointed out to us that because of the way it was handled, there should have been shares issued in order for that to be considered equity.

That is my understanding. I am not an accountant, but that was my understanding, that it was not technically equity. Even though it

was a contribution of the company into the project, it did not meet the definition of equity.

**CHAIR:** So if that is the response today, was it communicated to the Auditor General in writing as the departmental response previously?

**MR. LEWIS:** We had a discussion with the Auditor General on it. The point I just conveyed, in terms of the shares and so on, was based on the conversation we had with the Auditor General. In the report, I think it references that shares were an issue and it was not equity. It is not in our response, but it is in the body of the report as far as I know.

**CHAIR:** Okay.

Item 4 continues from that question. It says, "Government approved a second equity investment of \$5 million in GAGL in March 2012, when the Corporation had not demonstrated that it could complete the start-up of aquaculture operations in accordance with targets established in the business plan associated with Government's first equity investment of \$1 million in March 2009."

Is that true?

**MR. MEANEY:** The issue there related around the start-up date of the company. If you look at their business plan and the target production they had in the years following, unfortunately the company had some difficulties in getting started up on time.

Actually, while they did not technically meet their production targets within the year identified in the original business plan, it was out of phase by about a year because of circumstances beyond their control. So technically no, they could not demonstrate that they had met the targets in the business plan. They did meet the targets the following year – had the business plan said it started in X and moved it forward a year, it would have lined up.

**CHAIR:** What were those circumstances that were beyond their control?

**MR. MEANEY:** The issue related to their ability to access sufficient numbers of fish to stock in their first year. Their original business

plan would have seen a 2007 start-up, but because of the unavailability of smolt, that got pushed out to 2009. So it pushed the project ahead and out of phase.

**CHAIR:** Did they have the smolt available for their start-up?

**MR. MEANEY:** They did not have the full volume that they had hoped for in that particular year.

**CHAIR:** How much did they have available?

**MR. MEANEY:** I would have to go back and get that figure exactly for you. I am sorry; I cannot tell you off the top of my head.

**CHAIR:** Did they have enough or did they lose some of them?

**MR. MEANEY:** They did not have enough to start what their original target was. For argument's sake – and I am just using this as an example – if they were hoping to have a stock originally with 2 million fish, they were probably down to about 1.3 million or 1.4 million. So that resulted in placing the project out of phase.

**CHAIR:** If they had 3 per cent, and I take it that is in cash, then the other 17 per cent was in smolt?

**MR. MEANEY:** The minimum requirement is 20 per cent. So in many cases the equity investment was larger than the 20 per cent. As I recall from the project – and again, I would have to go back to the detailed business plan – they had more than the 20 per cent equity if you had included the smolt as equity, as per the commentary that we made earlier.

**CHAIR:** Has the detailed business plan been provided?

**MR. MEANEY:** All projects require a detailed business plan with submission; that is the basis of our analysis.

**CHAIR:** Has it been provided to the Auditor General?

**MR. MEANEY:** Yes.

**CHAIR:** The Auditor General does not, by statute, share his working papers with us. Can you provide the Committee with a copy of that detailed business plan?

**MR. MEANEY:** We would have to seek advice because the business plan contains private information of individuals within the company, net worth, those types of information, and private financials. So we would have to get advice in terms of what we are able to release for you on that basis.

**CHAIR:** Okay.

How old is that business plan?

**MR. MEANEY:** That would have been, I think, 2007 or 2008 for the original investment.

**CHAIR:** So it is a seven- or eight-year-old business plan? Gray aquaculture has since filed a petition for bankruptcy protection.

**MR. MEANEY:** They did file for protection. They had a creditors meeting. They provided a proposal to all creditors, which was accepted. They exited from bankruptcy last year and are now back operating with new financing.

**CHAIR:** Who owns the assets that were owned by Gray aquaculture?

**MR. MEANEY:** Gray aquaculture continues still to own them. They were never in bankruptcy. They sought bankruptcy protection. They had outstanding debts. There was a creditor proposal made and all creditors agreed to the redistribution of debt. They had new financing and the company is solvent today.

**CHAIR:** You will follow up on the business plan and see if there is any reason that it should not be provided?

**MR. MEANEY:** Yes, Sir, I will.

**CHAIR:** Under 5, which is the next page, page 61, the Auditor General found that, "The Department did not provide evidence that it evaluated the financial impact of shareholder plans to construct a processing plant in Hermitage on GAGL's ability to carry out the business plan associated with the \$5 million



equity investment ... ” It says that there is no evidence that it was evaluated.

Was it actually evaluated and there was no evidence provided, or was it not evaluated?

**MR. MEANEY:** The 2012 proposal that Gray put together was a multi-faceted proposal. It also included for them to start processing their own fish.

They had a separate proposal – just to go backward, the Aquaculture Capital Equity Program does not and cannot, by its objectives, fund primary processing activities, anything inside a processing plant that deals entirely with the production of fish, not with the processing of fish. They had provided at that time to government a detailed proposal for a fish processing licence, including a detailed business plan related to that aspect of their operation that was provided to the Fish Processing Licensing Board for review and the department for review.

When the proposal for the Aquaculture Capital Equity Program came forward, that was raised with the company. They indicated they had separate financing to be able to deal with that outside the Capital Equity Program. We raised it as a concern. We convened a meeting with the owners of Gray Aqua Group, ourselves, BCTRD – or IBRD as they were at that point – and Finance, as well as ACOA to address our concerns.

That was a meeting that we held. We provided the date of that meeting in an email and notice of the meeting to the Auditor General. We were not able to provide anything in writing that said we reviewed this plan and we clearly indicate that this has no bearing on the production plant. We had that discussion with the Auditor General and that is the information we provided.

**CHAIR:** So this is whether the construction of the plant would impact the ability to carry out the business plan that had already been submitted. That is how I understand it.

Mr. Paddon, maybe you can enlighten me there.

**MR. PADDON:** For us, this was a question of documentation – providing documentation to support our questioning.

**CHAIR:** Under 8, the Auditor General says, “The Department did not request, and GAGL and Northern Harvest Sea Farms Newfoundland Ltd. (NHSF) did not provide annual audited statements certifying the Corporation’s equity investment and compliance with the terms of Agreements in connection with the Provincial investments.” Why would that be?

**MR. MEANEY:** When the contractual documents were drafted for the Northern Harvest and the Gray Aqua Group contributions, there was a copy and paste over with a condition that was in the original Cooke Aquaculture contract that was not required. This was copied over in error in copy and paste.

We referred that to the Department of Justice for comment. Certainly it said the department should have been monitoring that. We recognize that it was not part and parcel of this investment. It was not the same investment. The Department of Justice indicated this was an error. They advised that this should be waived without prejudice to the company. It was never an item that was intended to be in the contracts, therefore, we never intended to monitor it. There was no rationale under the proposal or agreement to Finance to be able to monitor that.

**CHAIR:** Was it waived in writing?

**MR. MEANEY:** No.

**CHAIR:** As I understand it, the agreement as it was entered into had a requirement for annual audited financial statements and the department did not ask for them and they were not produced. Then the department went to the Department of Justice and you told the Department of Justice that this was an error, you should not have asked for them.

**MR. MEANEY:** The Cooke Aquaculture investment had a particular clause related, as we talked to earlier, about this additional capital investment to offset dividends. That was not included in any following contracts. As part of that requirement, Cooke was required to provide us an annual audited statement of additional capital expenditures above and beyond the original proposal, which I think was thirty-nine point two. That was related to the offset. So

they had to spend more money in capital to offset the dividend owing.

In neither the Northern Harvest or the Gray was there a similar condition negotiated. There was no request by either of those parties to offset the dividends; therefore, there should have been no contractual requirement for us to require them to provide us an audited financial statement of additional capital expenditures.

**CHAIR:** I understand from the first sentence that it means the parties, the government and these investor companies, entered into a written agreement with this requirement. Is that correct?

**MR. MEANEY:** Yes, that was part of the contractual documents that all parties signed.

**CHAIR:** And there were several million dollars involved?

**MR. MEANEY:** Yes, there was.

**CHAIR:** Do you know if the companies had legal advice?

**MR. MEANEY:** Pardon me, Sir?

**CHAIR:** Do you know if they had legal advice?

**MR. MEANEY:** Yes, certainly they had their own legal.

**CHAIR:** Can you explain how the department and these substantial companies would enter into an agreement and then say that the requirement for annual statements is an error?

**MR. MEANEY:** Just to be clear, the requirement for annual audited statements is consistent across all companies. What this particular reference here is to is an audited certification of the capital expenditure, of new capital expenditure. That was only required in the Cooke instance because it was related to the offset of dividends.

The other agreements with Gray aquaculture and Northern Harvest did not have an agreement to offset, therefore they did not have a requirement to provide us – they should not have had a requirement to provide us with information

regarding new capital expenditures. All of the contracts, though, just to be clear, require annual audited financial statements of the companies involved.

**CHAIR:** Did this come to light before the Auditor General's audit or as a result of the Auditor General's audit, or in some other way?

**MR. MEANEY:** This came to light as a result of the Auditor General's audit.

**CHAIR:** Has it since been resolved in writing between the parties?

**MR. MEANEY:** No, it has not. The advice by the Department of Justice is that we did not have to respond. We advised all parties and they are in agreement with it, but it was not done so in writing.

**CHAIR:** The next one, number 9, says, "COSI did not provide the Department with the required annual auditor certified schedules stating that sufficient eligible capital expenditures had been incurred to allow an off-set of dividend payments to the Province totaling approximately \$404,000." What is happening there?

**MR. MEANEY:** That came to light in the discussions, as I indicated in an earlier comment. The ability to offset dividends required the company to have new capital expenditures in and above the original business plan requirement.

In the first couple of years, the company provided the department with auditor certification of new capital expenditures. On a go-forward basis, they then advised government that the new capital expenditures will be identified in the regular financial audited statements but they did not want to go through the expense of creating an additional audited statement prepared specifically for this purpose. Reviewed internally in government, in terms of the audited financial statements, it was deemed that this was sufficient in the spirit of the intent to provide us the information to decide whether or not there should be financial offsets.

As indicated, going through the Policy and Procedures Manual, this year we are sitting down with the companies and identifying all the

items they need to provide to us. We will sit down – if indeed the company continues to wish to take a different route, we will seek legal advice and amend the contracts, if necessary, or we will retain the existing process, depending on the advice we get from both Justice and Finance.

**CHAIR:** Okay.

Under 11 it says, “The Department did not adequately review the claims for payment that were submitted by Corporations in connection with the Provincial contributions that were made under the Contribution Agreements.” It goes on to say, “There were instances where the Department paid claims when invoice listings were not provided. When invoice listings were provided, the Department did not always carry out review, audit or inspection procedures.” Is that in fact the case?

**MR. MENAHEY:** Mr. Chair, I wonder, could we take a five minute break?

**CHAIR:** Oh, sure, yes.

### Recess

**CHAIR:** We are back on right now. We were at question 11 of the Auditor General’s finding: “The Department did not adequately review the claims for payment that were submitted by Corporations in connection with Provincial contributions that were made under the Contribution Agreements.”

It went on to say, “There were instances where the Department paid claims when invoice listings were not provided. When invoice listings were provided, the Department did not always carry out review, audit or inspection procedures.”

I was asking, first of all, if in fact that is the case.

**MR. MEANEY:** The contract requirements for the provision of claims required the proponent to provide an auditor certificate attesting that the claim amount met the criteria of eligible capital assets as contained in the Contribution Agreement. We had received those auditor certificates to support every claim that was made under the program. There was not a requirement

in the contract for the auditor certificate to detail the invoices and the amounts.

The Auditor General had a look at that and said in some cases they were and in some cases they were not. They recommended the norm would be that the auditor certificate would include a listing of the expenditures. Our discussion with our department, Finance department people, said the contract said there was no requirement. We recognize that what the Auditor General suggested is a good suggestion, and we have now included that in our normal process for all new claims going forward.

**CHAIR:** On page 62, under Recommendations, the second item said: “The Department should clearly demonstrate and document that all ACEP eligibility criteria have been met before making recommendations to Cabinet for investment approval.”

Has that happened now? Is that the practice now?

**MR. MEANEY:** Yes, it is. When we went forward with other projects since then, we clearly identified in our advice to Cabinet that all the program criteria were met, and that was signed off by the three departments that were reviewing it.

**CHAIR:** It seems that sometimes the department was outside of the guidelines, and maybe business decisions were made and guidelines were not always adhered to. Have guidelines now been changed sufficiently to permit the Department of Fisheries and Aquaculture to carry on in aquaculture investments? Are the guidelines now broad enough or narrow enough or clear enough? What I am asking: Has there been a change in guidelines or updating?

**MR. LEWIS:** There has been no change in the guidelines since the Auditor General made his recommendations. The guidelines that are included in the report and listed on the department’s website are still the guidelines that we are following. We do recognize the point the Auditor General made regarding the financial requirements piece, and some consideration will be given to whether, in fact, we should seek clarity on those guidelines, or perhaps revision.

**CHAIR:** Under item 6 the recommendation is: “The Department should review and document the results of its review of the quarterly financial statements and annual audited financial statements that are submitted by Corporations in accordance with the Contribution Agreements.”

Does that happen now?

**MR. MEANEY:** Yes. One of the issues identified in the process – and I think Mr. Lewis alluded to it early – is that when we received the financial statements in some cases they are provided to us by email; the person receiving them would email to the other departments and our internal financial people. We now require acknowledgement of those financial statements and if there are no concerns, a note back, for example, email or in writing, to say we have reviewed and have no concerns, or we reviewed and we found the following concerns. So the documentation piece is critical there, and that is part of our process now.

**CHAIR:** So the quarterlies are unaudited, I think, and the annuals are audited?

**MR. MEANEY:** In most cases, yes, the quarterlies would be unaudited financial statements.

**CHAIR:** What is the normal leg time to produce the quarterlies?

**MR. MEANEY:** Roughly sixty days following the quarter, and in one case it is ninety.

**CHAIR:** The annual?

**MR. MEANEY:** Again, it is sixty days in most cases and ninety days following the fiscal year-end (inaudible).

**CHAIR:** I think one of the reasons that Gray got into financial difficulty was as a result of ISA. Some of the fish were condemned due to ISA – I believe that is correct – and the Canadian Food Inspection Agency provides compensation of, I believe, their input costs. Is that correct?

**MR. MEANEY:** Yes. Just as Gray was coming into their first major harvest, they were hit by ISA and that resulted in significant losses

because the bulk of the fish that was struck by ISA were market-ready fish. That limited their –

**CHAIR:** So, to protect its position, does the Province take an assignment from any company where it invests, an assignment of proceeds of CFIA compensation, in case a company is wiped out because of ISA or some sort of a compensable disease and they do not get started up again?

**MR. MEANEY:** As an equity investor, we are not eligible to take a lien on that basis. That was part of the review or the bankruptcy protection hearing in terms that monies provided through CFIA were part of the general revenue of the company then and were available for all creditors in that process.

**CHAIR:** Mr. Parsons, you may have some questions.

**MR. K. PARSONS:** (Inaudible) and it was probably already asked. I am very interested in the cod fishery. I know that years ago when we owned a trucking company, we used to truck a lot of fish to Bay Bulls. There were a lot of hatcheries there in Bay Bulls. Right now in the Province, what are we doing when it comes to the cod fishery for aquaculture?

**MR. MEANEY:** We had quite a lot of interest back in the late 1980s, early 1990s in cod growing, as well as establishing a cod hatchery. On the cod grow out, which were fishermen taking their catch or a portion of their catch and feeding it and selling it later in the year for a better price, most fishermen did not find that to be of benefit to them. We have one existing, as I indicated earlier in the day, in Trinity Bay near Little Heart’s Ease. There is one fisherman who continues that.

The cod hatchery and cod growth from sort of egg-to-plate aquaculture, that was given a tremendous amount of effort, time, and finances around the world: Norway, Canada, and Scotland. The reality is that the operating costs – the cost to produce a pound of codfish was greater than the market price available. Growing cod from egg to plate, if I could put it in that vernacular, is not economically viable right now.

**MR. K. PARSONS:** What is the time frame? How long would it take to do it versus, say, salmon?

**MR. MEANEY:** From egg to plate for salmon is roughly thirty-six months. For cod we are approaching five years.

**MR. K. PARSONS:** Okay.

**MR. MEANEY:** If you consider risk over time, the longer you have an animal alive the greater the risk tends to run you more time. That was one of the factors in this as well.

**MR. K. PARSONS:** We used to – I would say it was back in the mid-1970s, early 1980s, we had a tank. One of the trucks had a tank on it. We used to carry the fish from Flatrock and Torbay live. We used to put it in those holding tanks up in Witless Bay or Bay Bulls at the time.

The fish were, I would say, sixteen inches or less. Within a year or so they were pretty nice. It was pretty nice cod. The early stages of cod development, is that what takes most of the time?

**MR. MEANEY:** No, getting a fish large enough to stock is about a third. The grow out, from the time you put them into a cage to get them to market, takes about three of those four years, we will say.

**MR. K. PARSONS:** I think the biggest problem right now probably with the fishery – I know in my area the fishermen tell me they can catch a fine lot of fish, but I do not think the plants or anybody wants to take them because of the market aspect of it. There is not a lot of market there that was there in years gone by.

Perhaps you can give me – I know it is probably a little bit off the cuff here, but I am interested because I know what has happened in the cod fishery. On the food fishery, I get my regular trip every day. In the last couple of years I have noticed a lot of changes. It seems like the cod is a lot bigger and there are a lot more cod there.

In talking to the fishermen in the area, the biggest problem for them, if they ever went into commercial fishery, is basically markets down the road and who is going to take it and where it

is going to go. Is there anything getting done with that in the department?

**MR. LEWIS:** Just to back up a second for the cod aquaculture piece –

**MR. K. PARSONS:** Okay.

**MR. LEWIS:** As Brian indicated, Norway, Scotland, and ourselves – everybody who was interested in cod aquaculture when the stocks collapsed in the early 1990s. Since then, the stocks have recovered pretty well everywhere else except here. As you indicated, there are good signs that the stocks are coming back here now as well.

It is a lot easier to harvest the codfish that is wild, that you do not have to have in a cage, and you do not have to pay for. You do not have to pay people to feed it; you do not have to buy the feed to feed it and so on. Economics just do not work for farming cod at the moment.

The other thing that happened with the collapse of the cod stocks was there was a lot of interest in other white fish so you have a huge international market now for tilapia. I mean you can get tilapia here at Costco, or in Sobeys, or any of the stores. Twenty years ago that did not exist around here. Even ten years ago it did not exist. Those fish are taking the place of some of the cod as well.

That is sort of why the cod aquaculture thing worldwide is pretty well off now. In terms of the markets we really had one major cod producer that continued to process cod even though there was virtually none in the Province, and that was Icewater in Arnold's Cove. We also had a couple of other small significant players like John Osmond's operation in Codroy that have stayed in the cod business.

Basically, when the resource regime switched to a shellfish regime, everybody got into the crab business. A fair number of people got into the shrimp business. The eighty or ninety companies we had producing cod, most of them got out of it.

Now companies are starting to see that the groundfish is coming back and they are going to have to invest. A lot of the companies now are

asking themselves – it is a matter of timing now. It seems like it is not an if, it is a when.

So the question is when is the stock going to get back to a point where we are going to have a commercial fishery, and what are we going to have to do in order to be able to take that fish and turn it into the maximum valued product that is required? There is a good market for good cod. The Icelanders are exploiting that; the Norwegians are exploiting it. Iceland has a 200,000-ton quota of cod a year.

In the Barents Sea, the quota is 1.2 million tons and we have about 15,000 tons here at the moment. Really, apart from what Icewater is doing – which they have maintained some of their lucrative markets in Europe even in the face of really very little fish over the last twenty years – there is a good opportunity for good valued cod. Certainly Newfoundland will go back into that business when the resource gets to the point where the fishery opens and people are going to pursue that fishery.

In the department, we are seeing a lot more interest in the last year or two. Some companies whose business plan for cod was to take the cod and send it to Arnold's Cove – like if it comes in my plant, I am in Fogo, and I will send it to Alberto in Arnold's Cove – now they are realizing we have to get back into the cod business, too. So you are seeing some people starting to do some salt cod again in the Province. You are getting companies that are starting to think about what equipment we need in order to be able to really utilize this resource when the fishery reopens.

**MR. K. PARSONS:** It is going to be a huge problem though in the future. I believe the fishery is going to open. I think it is going to open sooner than later, too because I think you are seeing a lot of decline in the crab fishery in certain parts of the Province, and to talk to the fishermen, if the cod comes back, the crab decreases and stuff like this.

The biggest problem I can see is going to be the workforce to be able to handle it and also the technology. I know in the 1980s they started bringing all the filleting machines in and stuff like that, but there were just as many people on the lines filleting fish. If you go on the wharves

these days, it is a job to find a fellow who knows how to fillet a fish. It is going to be a huge issue for everybody, I think, down the road.

**MR. LEWIS:** It will be a much more capital-intensive business than it was back in the 1980s, for sure, when we had numerous people filleting fish, and doing trimming and so on. You will see a lot more because the bodies are not there to start with, really, to provide that kind of a workforce.

You will see a lot more technology involved. We saw it with the baiter 184s in the late 1980s; we were starting to go that way. You will see a lot more of that, technology on boats and in plants.

**MR. K. PARSONS:** Also, the fishermen will want a whole lot more money for their product than what they did when the moratorium came into effect and you were looking at eighteen cents or nineteen cents a pound. Now they are talking seventy-five cents with gut out, round, basic cod to sell now.

That is all I have. It was just a couple questions on the cod fishery.

Thank you very much.

**CHAIR:** In the AGs report on page 65, it shows that Gray Aqua – I am going to say – drew down \$4.8 million against \$6 million that was approved. Is that because they got into difficulty? Why didn't they take all the money?

**MR. MEANEY:** The company can only draw down if they have sufficient expenditures. The \$4.8 million was what they had expended up until the point that they got hit with the ISA event and started having losses.

They did not make any additional capital expenditures. There were more planned, but they did not complete their capital expansion plan because they ran into those difficulties. Therefore, we would not have put any further money out.

We do not advance any funds; it is based on invoice. They have to make the expenditure first before they can make a claim.

**CHAIR:** Okay.

This probably is a better question for Dr. Whelan, although probably all of you know: When did we have the last ISA outbreak?

**DR. WHELAN:** The last event that we had was really about November, December, and then the lag time. The last depopulation that we did was in January 2014. Those were the last fish that were taken out of the water.

**CHAIR:** Are there any other pathogens that are in salmon in any other parts of the globe here, the kidney disease and all these other diseases that fish can get?

**DR. WHELAN:** Yes.

**CHAIR:** We have them here now?

**DR. WHELAN:** Yes.

**CHAIR:** Are there any active cases?

**DR. WHELAN:** I guess at any point in time there would be.

**CHAIR:** Okay.

Is there anything that has been reported to CFIA yet?

**DR. WHELAN:** No, there are no reportable diseases.

**CHAIR:** Okay.

On page 69 – and I am nearly concluded – there is a reference to the Investment in Cold Ocean Salmon Inc. In 2006, the business plan was reviewed by the Evaluation Group. Who made up the Evaluation Group?

**MR. MEANEY:** The Evaluation Group is made up of the ADMs from our department, BTCRD, Department of Finance, as well as relevant staff within that department – in each of those departments whose expertise is sought and involved in reviewing it.

For example, in the case of our department, it is our technical experts who would verify that in looking at the business plan. So if X amount is

set aside for feed, we would do the calculation to make sure that those feed amounts are correct and provide that to BTCRD, for example, who would do the analysis of the business model once we verified the costs.

**CHAIR:** Okay.

I do not have any more questions, but some of the Committee members may. In that case, I will go to Mr. Paddon. Are there any areas that we should be covering? What are your observations?

**MR. PADDON:** No, I would not say there is anything that I would suggest you cover. I just had a couple of comments and just a couple of observations to make.

Just to talk a little bit about our process – and this gets to one of the questions you had raised a little while ago. When we complete the audit, we ask the departments for a response, and the response is only to the recommendations. We will publish those responses verbatim in our report. That is what you see in this report.

The rationale for only dealing with the recommendations is that up to that process, we would have gone through a validation process with the department to make sure, one, that things are factually correct and that we have not missed anything, those sorts of things. In this particular case, there were a number of meetings, obviously, with the department, and you go back and forth and make sure that you have the appropriate information, or that you change your commentary to reflect the information that you receive.

At the end of the day, my outcome is always to be balanced. So there are cases where I will make a judgement and provide a commentary based on my judgement. There are a number of instances in here where I have made a comment, but I have also tried to provide what I thought was the department's view of the world, to provide some balance. Anytime you make a judgement call, somebody else can have a different point of view. At the end of the day it is my report, my judgement, but I want to make sure that all views are represented. So I just wanted to provide that information for the Committee.

There have been a couple of comments here about documentation and lack of documentation as being an issue. In our business we have a saying that if it is not documented, it is not done. So we rely on documentation to support everything that you do. That sort of factors into – in a lot of cases – the commentary that we make. If we do not find documentation that can support a position or an outcome, then we will report that. In a lot of cases you will see that the wording is specific to say that we could find no evidence. That is not to say that it was not done, but certainly there was no evidence.

I do take the point that the deputies made, that they have put a checklist in place to look at the monitoring of annual reporting and terms of conditions. I think that is a good outcome, and we look forward to seeing that when we do our update.

The one area when we do our update that we look for is the non-compliance with the terms and conditions. While there may be good reasons for changes or amendments, in a lot of cases what we would look for is (inaudible). There is language in the agreements that one would assume are there for good reasons and they were negotiated and Cabinet would have approved it on the basis of particular outcomes. So, if you get a point where you allow a company to waiver from their commitments outside the terms and conditions, then I am not quite sure sometimes where the right balance is.

Should you be allowed to vary from the terms and conditions a little bit, or a lot? I do not know. In my view, a term and condition is a term and condition. If you are going to make a change, then make it with the appropriate approvals to make sure everybody is onside. That is just a comment I would make. In a couple of years, we will follow up on our recommendations and do a little bit of testing, so hopefully we will see that the recommendations have been actioned.

Thank you.

**CHAIR:** Thank you, Mr. Paddon.

Usually we like to give the department an opportunity, besides thanking them for coming

in, if you would like to have any concluding remarks.

**MR. LEWIS:** No, other than to thank the Committee for the questions. We will get back where we have committed to provide additional information to parties. Again, I thank the Auditor General for the report. We take these reports as constructive criticism and good advice as to how to improve programs and program delivery. That is the perspective we take it from. Certainly, we will endeavour to address the recommendations that the Auditor General has made to us.

**CHAIR:** Thank you, Mr. Lewis.

Before we adjourn, I need a motion to approve our minutes of this morning.

Moved by Mr. Peach; seconded by Mr. Cross.

All those in favour?

**SOME HON. MEMBERS:** Aye.

**CHAIR:** Carried.

On motion, minutes adopted as circulated.

**CHAIR:** In that case, a motion to adjourn.

Moved by Mr. Parsons.

On motion, the Committee adjourned.