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Monday, November 21, 2005

• (1530)

[*English*]

The Vice-Chair (Mr. Gerry Ritz (Battlefords—Lloydminster, CPC)): I call to order the 65th meeting of the Standing Committee on Agriculture and Agri-Food.

Today we have a full agenda. Before we get started, I would like to tell everybody that we have some documents that we'll be discussing later on. We have some motions to work our way through, and a press release that may or may not be issued. I have them on my agenda after our 5:30 meeting is done, in between that and the extra meeting we have interviewing Mr. Measner, if that's okay with the committee. That's what I have down on my agenda.

Having said that, we will begin with the presentations from the Competition Bureau.

Gentlemen.

Mr. Richard Taylor (Deputy Commissioner, Civil Matters Branch, Competition Bureau): We're waiting for the commissioner; he has just stepped out.

The Vice-Chair (Mr. Gerry Ritz): Thank you.

Mr. Bellavance.

[*Translation*]

Mr. André Bellavance (Richmond—Arthabaska, BQ): Mr. Chairman, I thought it might be appropriate, while we wait for the witness to arrive, to discuss and deal with the motions that, as you said earlier, we have before us today.

[*English*]

The Vice-Chair (Mr. Gerry Ritz): Our witness has just returned to the table, Mr. Bellavance. I have them down at the 5:30 stage. If we happen to end a little early, which we very well could with the first two witnesses, then we'll do all the motions and everything before we move on to Mr. Measner.

Gentlemen, back to you.

Mr. Gaston Jorré (Senior Deputy Commissioner of Competition, Competition Bureau): Thank you very much, Mr. Chairman.

If I may, I'd like to make a short opening statement.

[*Translation*]

It is a pleasure to be here today. We have been asked to address two issues: the bureau's review of the Cargill/Better Beef merger; and the recent issues facing Ontario canola growers.

Joining me today are Richard Taylor, Deputy Commissioner of Competition, Civil Matters Branch, and Morgan Currie, Senior Competition Law Officer, Mergers Branch.

[*English*]

At the outset, I'd like to say a few words about the Competition Act in general and the legal framework within which we operate. The act's purpose is to maintain and encourage competition in Canada. The bureau's objective is to ensure a competitive marketplace that provides Canadians with competitive prices and product choices. Our work promotes the efficiency and adaptability of the Canadian economy and takes place within the legal framework set by the Competition Act.

Our principal concern in many competition cases involving agriculture is concentration on the buying side, which may allow buyers to artificially reduce prices. Our merger enforcement guidelines make it clear that if a merger allows prices to be lowered by reducing competition, this can constitute a substantial lessening of competition resulting in a challenge under the act.

We are very much aware of trends to increased concentration in some agricultural sectors. While high concentration in a market in and of itself is not a violation of the Competition Act, in reviewing mergers we certainly consider the likely impact of an increase in concentration in the relevant markets. We define the relevant geographic and product markets before assessing whether there is a group of buyers or sellers that could potentially face increased market power. In addition to concentration, the act requires that we assess other relevant competitive factors, such as barriers to entry, foreign competition, and effective remaining competition.

[*Translation*]

The Competition Bureau has not hesitated to take action when warranted in this sector. For example, most recently, on November 10, 2005, the bureau filled an application before the Competition Tribunal challenging a grain handling joint venture between the Saskatchewan Wheat Pool and James Richardson International at the Port of Vancouver. Our position is that this joint venture would increase concentration in the ownership of port grain terminals in Vancouver, which, combined with other market conditions, would likely result in a substantial lessening of competition and a reduction of competitive options for farmers.

The bureau is also currently before the Competition Tribunal on another grain handling matter, the acquisition of the United Grain Growers Ltd. grain terminal by Agricore United. This is the subject of our next appearance. We have also appeared before this committee in February 2004 in relation to the BSE crisis.

• (1535)

[English]

I would like now to turn to the first issue that we've been asked to address. This involved the acquisition of Better Beef, an integrated beef packing facility in Guelph, Ontario, by Cargill, which itself owns a fully integrated beef packing facility in High River, Alberta.

[Translation]

We reviewed this merger using our formal inquiry powers. This allowed us to compile, by court orders, documents and written returns of information under oath from Cargill, Better Beef and competing beef packers.

[English]

During the course of the inquiry, we also met with and obtained information from feedlot owners, farmers, industry associations, cattle brokers, and grocery retailers, as well as officials from the federal and certain provincial governments. In addition, we hired two independent experts, one a specialist in agricultural economics and the other in industrial organization.

[Translation]

Our analysis focused primarily on the impact the merger would have in the procurement market for live cattle as well as retail boxed beef.

With respect to boxed beef, evidence obtained confirmed that the reopening of the US border in August 2003 to boneless beef exports from cattle under 30 months of age re-established a North American market for boxed beef. In the context of such a broad geographic market, we concluded that the acquisition of Better Beef would not raise competition concerns in the downstream market.

[English]

With respect to cattle procurement, we concentrated our analysis on feed cattle under 30 months of age. We had to determine whether the transaction would enhance the merged company's ability to profitably depress cattle prices to a level below competitive market price for a significant period of time. The key in analyzing the effect of this merger was determining the relevant geographic market. We had to determine the extent to which the Better Beef slaughter plant in Guelph purchased fed cattle from western Canada and influenced prices there. We also had to determine whether packing plants in the U.S. formed part of the relevant geographic market. Cargill, on the other hand, was not an active purchaser of feed cattle in eastern Canada.

We examined the potential impact of the merger on cattle procurement in western Canada, but because Better Beef's plant was located in Guelph, particular attention was paid to the potential impact of the merger in Manitoba.

We examined evidence relating to the following: interprovincial and transborder cattle flows; source of origin procurement data for

major Canadian packers; transportation costs; and, pricing data, both before and after the BSE crisis began.

The evidence we obtained established that the two beef packing facilities operate in separate geographic markets. We found that when the border is open, the two relevant geographic markets: western Canada, including Manitoba, plus certain U.S. northern plain states; and eastern Canada plus certain northeastern U.S. States. When the border was closed to all Canadian cattle, the two markets were western Canada, including Manitoba, and eastern Canada.

The bureau found that in western Canada, including Manitoba, the competition between Cargill and Better Beef was limited. Even in 2004, at the peak of Better Beef's purchases of fed cattle in western Canada, Better Beef's purchases of fed cattle in Alberta were negligible and their purchases in Manitoba were less than 10% of the province's total feed cattle inventory. Better Beef's ability to influence cattle prices in western Canada was not significant.

Overall, we determined that this transaction did not provide the grounds necessary to warrant an application to the Competition Tribunal to challenge the merger under section 92 of the Competition Act.

[Translation]

We announced our decision on August 30th, 2005 and released a technical backgrounder explaining how we conducted our inquiry.

[English]

That technical backgrounder should be attached to a copy of my statement.

Let me turn now to the second issue you asked us to address: the Ontario canola industry. While we have not received any complaints on this matter at the Competition Bureau, we are aware from publicly available information that the root of the concern appears to be the quality of this year's canola crop, which was negatively affected by unusual weather conditions. Further, the Canadian Grain Commission has confirmed that the crop damage was due to record high day-and-night temperatures combined with lack of moisture.

We understand the Ontario Canola Growers Association has itself acknowledged this situation. According to the association's January 2005 newsletter, the closure of a canola crushing plant in Hamilton has left just one buyer for Ontario canola.

• (1540)

[Translation]

However, on the basis of the information available to date, we have no reason to believe that the Competition Act has been or is about to be contravened.

That being said, I would like to assure the committee that if any information is uncovered which points to a potential breach of the act, the bureau will not hesitate to take appropriate action.

[English]

We'd be delighted to answer your questions. Thank you.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Jorré.

We'll start the first round of questions. We'll limit our questions to five minutes, because it is just an hour-long round.

Mr. Bezan, for five minutes.

Mr. James Bezan (Selkirk—Interlake, CPC): Thank you, Mr. Chair.

Thank you, gentlemen, for coming in to make the presentation today.

You can be sure that there have been some concerns raised over the last while about how in the agriculture industry we have a real pyramid effect happening here, with fewer and fewer buyers in the market for our products and quite a concern about the competition of those products.

Particularly with the Better Beef acquisition by Cargill, you looked at it from the standpoint of open borders. Did you take a hard look at it in terms of if the border were shut down again?

Mr. Gaston Jorré: As I said, we did look at what the market was with a closed border. Essentially we found there were two different markets, with Better Beef having very little impact on cattle prices in the west.

Do you want to add anything to that, Morgan?

Mr. Morgan Currie (Senior Competition Law Officer, Mergers Branch, Competition Bureau): Yes.

As Mr. Jorré indicated, the key question for us was determining the relevant geographic market, and in western Canada, the ability of Better Beef to influence prices there. That company buys primarily in Ontario and Quebec. With the information we were able to obtain, particularly through formal powers, we found that their ability to influence pricing in western Canada was very limited.

Mr. James Bezan: I happen to be from Manitoba, and I am a cattle producer as well. Even if they only influence the market by 10%, that 10% is still fairly significant for us as players in the industry.

The bigger concern that I'm hearing from producers, not only in western Canada but in Ontario, of course, is that we now have one player in the industry that controls over 57% of the market. There is concern that when you add in the other two or three big players, essentially they're at over 80% of the marketplace.

Do you feel that there is still significant competition between those players to ensure that we're getting fair market value for our animals?

Mr. Gaston Jorré: Obviously our conclusion was that there was not a substantial lessening of competition. There are other buyers for cattle coming from both the west and the eastern market, in addition to Cargill. There's Lakeside Packers out west, and there are two other players on the U.S. side of the border.

Mr. Morgan Currie: In particular, we wanted to see, particularly with the border closed, who went into Manitoba buying cattle, because as you well know, the industry, particularly in Manitoba, was geared largely towards export.

If I have my numbers right, over 90% of fed cattle were exported from Manitoba. There was a lack of slaughter facilities there to deal

with fed cattle particularly. XL Foods Inc. in Moose Jaw and Calgary is still there, along with Lakeside Packers and Cargill. A particularly important competitor south of the border, Swift & Company, in Colorado and also in Nebraska, is buying cattle. So we're seeing those cattle flows. Although not, unfortunately, what they were in the pre-BSE period, this kind of trade is occurring right now.

Mr. James Bezan: Also, you haven't had any complaints at all on the canola industry in Ontario, as you're reporting, because there was some concern raised that we are down to only one main player in Ontario to buy canola. Because the quality of crop has considerable influence on discounts on grades, that isn't a concern for the Competition Bureau?

Mr. Richard Taylor: I should say a few words about the abuse of dominant provision under which we've looked at that.

It isn't a merger. If a large company has what we call a dominant share of the market or a considerable share of the market, under our abuse of dominant provision, which is section 79, it's not a contravention of the act to simply be a large company with a high market share. You must actually do some form of an anti-competitive act that would hurt a competitor or stop a competitor from offering competitive rates.

On Bunge Canada and CanAmara Foods, we looked at this matter over the last few weeks, after we became aware of it and after we became aware that this committee had some questions about what happened last summer. I understand that Bunge and CanAmara in Hamilton stopped crushing canola, simply because there is not a lot of canola to crush, and I understand that they did it for a reason of profitability.

There are a little more than 40,000 tonnes a year grown in Ontario, and the total Canadian crop is something in the order of 7 million to 7.5 million tonnes. It leaves Archer Daniels Midland as the only crusher, but you can export the seed. I understand that Parrish and Heimbecker and JRI will both buy the seed. It won't be crushed in Ontario, but they would buy the seed.

It's not a contravention of the abuse of dominant provision for ADM to be the only crusher. They have to do something anti-competitive to exacerbate the situation, such as predatory pricing or exclusive dealing, to hurt a competitor, stop a competitor from entering, or eliminate a competitor.

• (1545)

The Vice-Chair (Mr. Gerry Ritz): Mr. Bellavance.

[Translation]

Mr. André Bellavance: Thank you for your statements and thank you for sharing this information with us.

The mad cow crisis brought to our attention the fact that we have a serious problem regarding the number of slaughter plants. When the Americans closed their border, we realized that we were somewhat at their mercy given that we had so few slaughter plants. The government established a program that unfortunately does not apply to Colbex, but whose purpose is to allow a greater number of small slaughter plants to open throughout Canada. However, I don't know that this will be an easy task. We'll have to see whether or not the modalities of this program lead, as I hope they will, to the opening of new slaughter plants.

Has the Competition Bureau examined the situation? Can smaller slaughter plants be viable? When I say small slaughter plants, I'm referring to slaughter plants that are smaller than the one resulting from the merger we have before us.

Mr. Gaston Jorré: From what I understand some are in the process of opening or have already opened, mainly in the west. Our responsibilities do not include the consideration of the viability of new businesses, but the fact that some new slaughter plants seem to be opening indicates that there are people who believe that there is a market for this.

Mr. Morgan may wish to comment on that.

[English]

Mr. Morgan Currie: Yes, as Mr. Jorré indicated, we are aware of some small-scale entry and additional planned entry in western Canada. We are somewhat comforted by the fact that the U.S. Department of Agriculture is apparently hoping to be able to reduce this restriction on cattle over 30 months of age. Of course, a particular problem in the province of Quebec has been on cattle over 30 months of age and limited slaughter capacity.

[Translation]

Mr. André Bellavance: Mr. Jorré, I would like you to tell me specifically if, when you considered this merger, you also considered the impact that this might have on smaller slaughter plants and whether or not it might hinder the establishment of other slaughter plants?

Mr. Gaston Jorré: The question that needs to be asked regarding markets that are upstream and downstream from a transaction is whether or not that transaction will significantly reduce competition.

The act focuses its protection on the competition, not the competitors. Obviously there have to be enough competitors, but that is not what we consider. If the threshold of a significant reduction is not exceeded, then the act does not consider whether or not there is room for new or current competitors, and whether or not there will be enough competition in the market in the future.

•(1550)

[English]

Mr. Morgan Currie: If I may, we have spoken to some of the smaller-scale companies that have come online in beef packing, and some of the companies that are planning to do so, and we've received no evidence or representation that the merger would in any way negatively impact upon their ability to enter and expand.

[Translation]

Mr. André Bellavance: After this merger Cargill will have considerable purchasing power and that is what worries me. With that kind of purchasing power, the biggest business will have somewhat more control over market prices.

Did your studies consider the link between their purchasing power and that of the other slaughter plants?

Mr. Gaston Jorré: We would have had to have been sure that there was still enough competition to prevent any significant reduction. Our conclusion, in fact, was that there was still enough competition in the market.

Mr. André Bellavance: I don't know if you do this in other areas, but once you have conducted an investigation, do you do any follow-up on the merger in order to determine what the impact and consequences are?

Mr. Gaston Jorré: The act allows for consideration of a merger for three years. If there are any significant changes, then we can review them and take the necessary measures, depending on the circumstances.

Mr. André Bellavance: If I've understood correctly, then, there will be a follow-up.

Mr. Gaston Jorré: Yes, if we learn of any significant changes. We follow the agriculture markets, because there are still some outstanding issues.

Mr. André Bellavance: During the mad cow crisis, the Government of Quebec looked at what was happening to beef prices in the supermarkets, which, in the end, never went down. Have you looked at that? Something happened. Someone, somewhere, profited from this, but it definitely wasn't the consumer.

Does the Competition Bureau have anything to say on that matter?

Mr. Richard Taylor: We looked at the market for six months. We found that beef retail prices reflected the international market. The border was open most of the time and there was considerable trade in beef and retail commodities. The price was maintained by American purchases. Unfortunately, the price for beef producers went down because we had a beef surplus. That was what we observed.

Mr. André Bellavance: Thank you.

[English]

The Vice-Chair (Mr. Gerry Ritz): Ms. Ur, for five minutes.

Mrs. Rose-Marie Ur (Lambton—Kent—Middlesex, Lib.): Thank you, Mr. Chair.

Could you indicate to me what the Competition Bureau's track record is on cases examined as to the number you have examined versus the number you had found guilty on investigation.

Mr. Gaston Jorré: In merger transactions? Well, I'll talk about the number where we have concluded that remedies are necessary. Of all the transactions that are notified in a year—and currently we're running in the high two hundreds—it's a fairly small percentage where we conclude that there is a need for remedial action. Most of those cases ultimately involve resolution by agreement. There is a very small number where we don't reach a resolution by agreement and we have to take the matter to the Competition Tribunal.

There are some relating to agriculture where we have taken action. For example, I'm not sure whether it was two or three years ago, but there was a merger of Bayer and Aventis that affected certain agriculture chemicals and where we sought remedies involving the divestiture of certain seed treatment businesses.

•(1555)

Mrs. Rose-Marie Ur: All right, because with all due respect, I've not seen a lot of positive things come out of the Competition Bureau. I think the Competition Bureau or the act needs to be enhanced or given more teeth, because we've looked at, say, gas pricing—I know that's not agriculture, but guess what, farmers use gas—and when we bring something to the Competition Bureau, we see very little effect from the review. So that's my two cents' worth on that today.

In your statement, you said that Better Beef's plant was located in Guelph, and particular attention was paid to the potential impact of this merger on neighbouring Manitoba. I think it's very good that you looked at Manitoba. Did you look at Ontario, with respect to how it would affect the other slaughtering facilities in Ontario?

Mr. Gaston Jorré: Cargill was not buying cattle in Ontario, so the effect of the transaction, in terms of cattle sales in Ontario.... You didn't have an overlapping market, and therefore you didn't have any effect from Cargill and Better Beef coming together in the Ontario market.

Mrs. Rose-Marie Ur: I know I've spoken to some of the farmers in my riding, and they couldn't believe that it happened. You said you had spoken to some farmers, and you listed a whole bunch of people, but I don't think it was really unanimous. I don't know what criteria you used to seek input from farmers, but I can tell you that there wasn't a consensus in my riding as to what happened.

You also said that Better Beef's ability to influence cattle prices in western Canada was not significant. Surely we know that, with Cargill and Tyson and Lakeside and everybody else out there. I don't think you have to belong to the Competition Bureau to make a statement like that.

Mr. Gaston Jorré: That's the conclusion we reached.

Mrs. Rose-Marie Ur: Right.

Regarding the canola situation here in Ontario, are you aware of whether ADM offered a price to Ontario farmers in 2005 that was consistent with world prices for canola? Was that in your investigation when you were looking at that subject?

Mr. Gaston Jorré: As I've indicated, we've looked to publicly available sources since the committee raised this. The Competition Act does not regulate prices, and as Richard explained, what we have to look for is whether there is behaviour by a party that constitutes an abuse of dominance within the meaning of the act. We're not aware of information that would indicate that. The abuse provisions are focused on behaviour that prevents other competitors from entering the market. As I said, if further information becomes available that indicates that there is something we should look at, we'll take the appropriate steps.

Mrs. Rose-Marie Ur: Have you ever investigated ADM before on any matter? And what was the outcome?

Mr. Gaston Jorré: Yes. Actually, in 1998 we obtained what was then a record fine against Archer Daniels Midland in respect of the sale of lysine, which is an additive in animal feed, and at that time the fine was, if I remember correctly, \$16 million.

Mrs. Rose-Marie Ur: Have you received an investigation complaint from farmers about inconsistencies in how ADM grades their grain? It was brought to our attention that there has been

occasion when the Canadian Grain Commission grader was on site, and it was not the same grading system as ADM's. Was that in your investigation of ADM?

Mr. Gaston Jorré: We've heard that, again, from public sources.

Mr. Richard Taylor: May I just add that we understood that in the summer, with canola, it was the elevators that were grading the grain. Actually, for the canola, ADM brought in a representative from the Canadian Grain Commission, and there was a quantity of grain that was graded as number one and number two. But everything we see publicly available on the canola side, including from the Ontario Canola Growers Association, suggests that there was a large proportion that was not acceptable because of the weather.

I think you mentioned other grains, and we haven't heard anything on them, but on the canola we certainly had heard that.

•(1600)

The Vice-Chair (Mr. Gerry Ritz): Mr. Angus.

Mr. Charlie Angus (Timmins—James Bay, NDP): Thank you, Mr. Chair.

I'd like to begin with just a quick question, because I don't have much time. Were you in direct discussion with ADM on this issue?

Mr. Richard Taylor: We don't talk about who we do investigations with. We have section 29 confidentiality provisions in the act, so we're very careful about not divulging who we talk to. It could put a chill on people coming forward and cooperating with us, so complainants and people—

Mr. Charlie Angus: Thank you.

The only chill it puts on me is I can find a lot of stuff out of public records too and go on the Internet, but what I was hoping to find out is what we can do in terms of protecting our primary producers. You talk about the abuse of dominance provision, but clearly it's only dealing with corporate competitors. We don't seem to have any provisions to protect primary producers from abuse of dominance.

To rebut the story that was presented to you and hence presented to us, the issue with the canola crop this year was really on the interpretation of what was heat-damaged and how that was graded, because we had truckloads going down to the ADM plant that had been graded at the elevators as grade one and grade two canola. Now there were brown seeds in there. There was some heat damage, but that doesn't mean it was heated seed. And if it was heat-damaged, there's a normal penalty that you would pay per tonne.

What happened with ADM was they had access to other markets, so they just simply rejected it out of hand. Canola that was graded at grade one and grade two levels at the elevators was being turned back as useless.

There was apparently a statement by them that they were going to just suspend all purchases. Well, people stopped shipping when they knew they weren't getting grade one passed. So they had a situation where the commissioner did come in and say this is actually grade one and grade two.

But what has happened is, because it was simpler for ADM simply to buy their canola from the west and ignore this year's crop, we basically plunged our domestic Ontario market into chaos. We do know that farmers who were stuck with canola have managed to sell some of that canola in Thunder Bay. Of the nineteen trainloads—there will be nineteen 80-tonne cars going in total—every single one has passed out of grade one and grade two levels. There were no problems. It might have been dryer than usual, but they accepted it.

So here we have a company that has the ability to simply walk away on a crop and there is no provision for protecting farmers. Obviously it's not a competitive situation—a problem of ADM against a competitor—but for the domestic economies it has created chaos. And now what we're seeing is that grade three crop is being paid out at \$295 a tonne because of crop insurance. Grade one canola is being paid out at \$150 a tonne. For people to have done due diligence, done their work, done what is required of the marketplace to bring it to market, and to be told, "Sorry, we're not only not taking it, but if you'd had insurance, we'd pay you twice as much for scrap"....

We have many farmers in Ontario who are not planting canola next year. You haven't had complaints, but I've had many complaints. People are telling me they're not going back into the canola market until we have alternatives; unless there are alternative markets out there, they're not getting screwed over again.

So my question to you is this. Is there an ability through the Competition Bureau to look at the abuse of dominance provision to protect suppliers?

Mr. Richard Taylor: We can't force a new entrant to come into a market that is only 20,000 or 40,000 tonnes a year. We can't stop CanAmera from exiting the market. What we do know from the Ontario Canola Growers Association is that they are looking for new markets in Mexico and they are trying to diversify. I've read their most recent newsletter, and they're taking all possible measures. They realize that with only one buyer and the size of the crop, it can put them in a difficult situation.

I would add that they're also quite hopeful. This was the first bad crop in twenty years, and they're hopeful that it's just a one-off and that next year will be better.

Mr. Charlie Angus: This is also the first year that ADM had the monopoly in Ontario.

Mr. Richard Taylor: From our point of view we'd look to why they were the monopoly. Had they put CanAmera and Bunge out of business by predated or by paying them off not to buy, that could give rise to an abuse, but simply by being the only buyer in a relatively small market, there's nothing the Competition Act can do to create another buyer or to find markets for the canola growers. We can protect the market that exists from abuses, and that's our principal role.

● (1605)

Mr. Charlie Angus: Again, and it's not perhaps the role of the Competition Bureau at this point—I mean, you can't create competitors, I recognize that—but in terms of agricultural policy in this country, if we're moving more and more to markets that are controlled by fewer and fewer players, there has to be recourse when grading standards are arbitrarily changed. If they're arbitrarily changed, then the farmer can never be in a fair marketplace. The best he can do is bring in his crop, and if there are problems with it, he accepts a penalty price. But if you arbitrarily change the grading standards because you have the power to, it seems to me there is an abuse of dominance and it will affect the ability of our farmers to plant for coming years.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Angus.

Now we'll go to Mr. Anderson.

Mr. David Anderson (Cypress Hills—Grasslands, CPC): Thank you, Mr. Chairman.

I want to talk a little bit about remedial efforts that you can make. If you do find a situation in which we have a problem, and of you determine that there is, what authority do you have and what penalties can you impose?

Mr. Richard Taylor: Under the abuse provision, basically we would go before the Competition Tribunal, which is a specialized body comprised of part of the Federal Court. It has a layperson, a business person, and an expert economist. We would seek to have an order issued by the Competition Tribunal to stop the practice.

Under section 78, it lists a number of practices. First, you have to be a large company with a large share of the market. There have to be barriers to entry to basically ensure that if you raised your price, no new companies would enter. If you have those, then we look for anti-competitive acts. A very common anti-competitive act that we find is something called exclusive dealing. If somebody like a large buyer forced customers to deal exclusively with them for, say, three years and that kept product away from other competitors, that would be the kind of issue, and we would go for an order from the Competition Tribunal to have that exclusive dealing stopped.

Right now there are no penalties under the civil provisions for either mergers or abuse of dominance. I would add that in Bill C-19, which is currently before the industry committee, the government is considering the possibility of bringing administrative monetary penalties under there for egregious contraventions of the abuse of dominance, realizing that they can have very serious implications on buyers and competitors.

Mr. David Anderson: If you don't want monetary penalties, what power do you have? Do you reverse the decision or what?

Mr. Richard Taylor: If they're doing exclusive dealing, if they're predated or doing something in anti-competitive practice, then the tribunal can order the practice stopped. If the company does not stop the practice, that can result in serious penalties. They would then be in contempt of a Federal Court order.

Mr. David Anderson: Can you give me a couple of examples of when and where you've been successful?

Mr. Richard Taylor: We've had a number of cases, starting with NutraSweet, the artificial sweetener case, and we've had Laidlaw. We've had five cases that have been contested before the Competition Tribunal, and a number of cases that were resolved on consent. That's where the other side, in essence, agrees. Unfortunately, under "abuse", we just lost a large case last year before the Competition Bureau. So there have been a number of those cases.

Mr. David Anderson: I'd like to spend a little more time on this, but I am going to split my time with Mr. Sorenson. I'll let him have a couple of minutes here.

Mr. Kevin Sorenson (Crowfoot, CPC): Again, thanks.

I believe probably the largest crisis in agriculture that we've seen in any year is coming this year. I'm not a regular on this committee, but certainly my constituency is a rural riding, and the calls I am getting are just remarkable.

The Ontario market does concern me when I hear different members of this committee making reference to some of the frustrations they're having. In Alberta, we have a crop insurance program that does also allow for a certain degree of price protection. I'm not certain if the committee has studied how it compares with some of the other crop insurance programs across the country, but I can tell you that the Conservative government in Alberta has a crop protection plan. On my own farm, I have checked this price protection on my canola. Even if prices right now are about \$5.15 or \$5 a bushel but last year they were close to \$8, I think I'm getting an extra \$1.10 or \$1.25 just because it's part of crop insurance. So I'd just like to make that comment.

Can you give me a little information in regard to acquisition? Are the packing operations in Ontario similar to how they're carried out in Alberta? In Alberta, many of the cattle and feedlots, for example, are contracted or owned by packing plants. Is it the same in Ontario?

•(1610)

Mr. Morgan Currie: That is referred to in the industry as captive supply, a supply of cattle that is owned by a packer two or more weeks prior to slaughter. That is an industry practice not only in Canada, but in the United States. Our evidence shows that the amount of captive supply fluctuates in the industry from competitor to competitor, but that is more or less a standard practice.

Mr. Kevin Sorenson: But that's my point. Comparatively, is there more of that captive supply taking place in Ontario or out west?

Mr. Morgan Currie: The fed cattle herd is overwhelmingly located, in terms of percentage, out west and particularly in Alberta, so we would find higher levels of captive supply for sure than we would in Ontario, where according to publicly reported figures Better Beef's slaughter capacity is about 9,500 head of fed cattle a week. There are two other smaller federally inspected abattoirs in Ontario whose capacity is around 1,200 to 1,500, but the largest packers are located out west, so we'd find higher levels of captive supply there.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Sorenson.

We're going to Mr. Easter now.

Hon. Wayne Easter (Malpeque, Lib.): Thank you, Mr. Chair.

Welcome, gentlemen. Concerning Kevin's point, if you're a primary producer out there at the moment, you're extremely concerned about the concentration in the agricultural industry. We're looking at Cargill, with somewhere around 50% of capacity, and if you add Tyson you're looking at 80%.

So both on the input side and the output side, primary producers are facing really a lack of market power and increased concentration. Add to that the fact that these same companies—I know you're dealing within Canada—are operating both south and north of the 49th parallel. And worse yet, it's the same companies that are really controlling prices worldwide.

In your investigation, did you evaluate how overall prices are attained in the beginning? I know that between companies we'll have to take your report at face value; you did your investigation. But have you done any investigation into pricing as it relates to primary producers and the establishment of prices? If not, do you have any ideas how it could be done? That's where the problem starts at the beginning, with prices being established overall, globally.

Mr. Morgan Currie: In terms of the merger investigation, what really benefited us was the exercise of formal powers. We had a formal inquiry and were able to obtain this kind of information from the industry, from the major packers—not only those involved in the merger, but others—source of origin; procurement data; pricing data; and transportation costs.

We wanted to know what the interprovincial flows of cattle were, whom the major packers were buying from and at what price, and what the transportation costs were. This allowed us to determine, for the purposes of the merger in isolation—evaluating the increase in concentration—what effect Better Beef has on pricing in western Canada, which was the most important issue for us.

Hon. Wayne Easter: In your investigation, would you in any way investigate—and more likely with Cargill than with Better Beef—the connection between feedlots and packer and the impact that has? We all know for a fact that packers can sell their own cattle to themselves or to somebody they have on contract with them at a loss and recover that loss further throughout the system. Do you check that, or has that had any impact in your investigation?

•(1615)

Mr. Morgan Currie: We also obtained that type of information. It's because of the complexity of that kind of analysis that we decided we needed an industry expert to help us with it, and also an expert in industrial organization. They examined that issue.

If I get the point correctly and am interpreting you correctly, we do not have evidence that the use of captive supply to depress prices is occurring in the industry, based on this analysis.

Hon. Wayne Easter: What connection is there between the Competition Bureau in Canada and the similar body in the United States? If we're going to get at the nub of the problem involving cattle pricing and its low-price impact on primary producers, then we're going to have to go beyond our own borders. These guys are operating beyond our own borders.

Can you do that, or do you have any suggestions how it could be done?

Mr. Gaston Jorré: I have a couple of comments. The first one is that, basically, we use the same framework of analysis as the U.S. agencies do, and indeed pretty much all the agencies around the world use essentially the same type of analytical framework. The second one is where transactions are transborder or indeed multinational transactions, we do cooperate extensively with the agencies in the United States or elsewhere in analysis.

If I might add one other thing, which I think is important in understanding how we do a merger analysis, the test of a substantial lessening is a test that starts from the market however you take it. And as we indicated, we found that the western market was a different market from the eastern market. In the western Canadian market, this transaction did not change things. There was already a pre-existing concentration, and the test is—and it's very important—whether there is a substantial lessening, not in some absolute sense what the level of competition is.

The Vice-Chair (Mr. Gerry Ritz): Mr. Lapierre for five minutes, please.

[Translation]

Mr. Réal Lapierre (Lévis—Bellechasse, BQ): Thank you very much. I would like to look at the problem from a slightly different angle. As a member of Parliament elected from the province of Quebec, I can tell you that unfortunately small slaughter plants have closed due to competition. We now know that the rules of the game have been distorted, because there are some very big players who often control the beef production chain, from the slaughter plant all the way to the packing plant.

Others have already spoken on that matter. For example, I've heard that people have been interested in opening small slaughter plants. However they have come up against the fact that large slaughter plants have control over the livestock, which handicaps them from the very outset in terms of supply and profitability.

Can we talk about fair competition knowing full well that the largest plant will succeed at the expense of the smallest plant?

Mr. Gaston Jorré: As I explained, there are series of tests that are used in determining abuse of a dominant position. I don't know all the facts, but the question is whether or not, in cases of contracts between slaughter plants and producers, the elements creating an abuse of dominant position, as set out in the act, are present. That is what Richard explained.

If those elements are not present, then there is no abuse as described by the act. We have to start by determining whether or not the buyer in question is in a dominant position. then we need to consider barriers. Finally, we need to determine whether the practice itself is breaching the provision in question. If so, there may be an

another possible application of the act. Otherwise the act is not applied.

• (1620)

Mr. Réal Lapierre: If we look at what's happening in reality, we see that regions are becoming depopulated and are emptying out all over the world. The current fashion in Quebec is organic production or organic agriculture. When large producers are in control, then it's legitimate to ask what will happen to a smaller producers, the smaller slaughter plants owners, and, consequently, to the survival of the region.

Mr. Gaston Jorré: There are many important issues, several of which go beyond the framework of the current legislation.

Mr. Réal Lapierre: That is precisely my question. Given what seems to be happening in terms of regional development, and in terms of a potentially more humane form of production, what will your role be? Furthermore, what will be your purpose if you do not have the necessary legal instruments? Who is going to ultimately put this house in order?

Mr. Gaston Jorré: We have the tools we need to enforce the act's provisions as they stand. We have fairly significant powers, within the legislative framework. Over time, if new needs are felt, such as that for organic products, for example, and if there are consumers who want those products, then one would expect to see new chains on the market. In fact, they are already being developed and we are seeing more and more of those products.

Mr. Réal Lapierre: I have one last question. The investigation you conducted found no evidence of unfair competition. Have your investigations ever resulted in a finding of unfair competition?

Mr. Gaston Jorré: It has happened in some areas. There have been cases of cartels resulting in very high fines. We have had to act in the case of certain mergers in various areas. There have been cases of abuse of a dominant position, but always within the framework of the legislative provisions.

[English]

The Vice-Chair (Mr. Gerry Ritz): Merci, Monsieur Lapierre.

Mr. Smith, five minutes please.

[Translation]

Mr. David Smith (Pontiac, Lib.): Thank you very much, Mr. Chairman.

Gentlemen, thank you for coming this afternoon. I listened to your statements as well as my colleagues' questions. I am quite honestly surprised.

I represent Pontiac, a rural riding in the Outaouais region, where there are several beef producers. Obviously, the Pontiac beef industry is not at all like that of western Canada where you find feedlots of 20,000 to 30,000 cattle. In my riding we're talking about nice small farms with about 500 or 600 head of cattle, and people make their living from this.

You undertook an analysis. You talked with feedlot operators, farmers, representatives of associations, of the industry, and grocers. If I have understood correctly, you're telling us today that after these mergers, competition and the industry are alive and well.

Mr. Gaston Jorré: Our conclusion is that the merger has not led to a significant reduction in competition, which is the criteria used in section 92 of the act.

Mr. David Smith: Farmers working the land get up at 5 o'clock in the morning to take care of the animals in their stables, to harvest their hay, etc. They work seven days out of seven. They discount their beef because they are not able to sell it at its true market value. The buyer refuses to pay more, because there is a surplus of beef. When producers go to their local grocery store—most often Provigo in smaller communities—they see their meat being sold at higher prices. Of course, they don't buy it at the grocery store.

What should we be telling those people today?

• (1625)

Mr. Gaston Jorré: Clearly, these people are facing extremely difficult circumstances. However, we have to work within the framework of our legislation. We have the burden of proving significant reduction in competition.

Furthermore, as I already stated, this framework is the same as that used in all other countries with competition legislation, whether that be in the European community or in Washington.

Mr. David Smith: Let's bring this down to a smaller scale, to the village of Shawville, for example. That's pretty local. What should we tell those farmers who have a herd of 700 cattle?

We're encouraging these people to build new slaughter plants. The government has established new programs and all the necessary structures to support them. We're telling the farmers that we'll be reinforcing their power, that they'll be able to start their own slaughter plants, establish cooperatives, have all the necessary elements.

What should we tell those people, those people who would like to pass their farms on to their children?

Mr. Gaston Jorré: Those are issues of agricultural policy that go well beyond our responsibilities.

Mr. David Smith: I understand that you work within a legislative framework. I ask you then to express an opinion that falls outside the legislative framework, a personal opinion. You've done your homework.

What is your perception of the industry today? If you were a farmer, how would you see the situation, as an individual?

Mr. Gaston Jorré: It's difficult for me to put myself in the shoes of a farmer, but clearly many of them are facing very difficult times. The mad cow crisis triggered all kinds of problems in the beef industry. That crisis changed the market from one day to the other.

When the American border closed, the available market shrank. With a reduction in demand, a crisis was triggered. Fortunately, the border has, to a great extent, been opened, which helps. However, the situation is not back to what it was before the crisis. These are circumstances that are very difficult to control.

Mr. David Smith: But somewhere some people made money, they got richer. If the farmer was selling his beef at a lower price to a slaughter plant, then someone made money somewhere, because the cost of beef did not go down in the grocery store.

Who do you think make that extra money?

Mr. Richard Taylor: We did not investigate that.

Mr. David Smith: Take, for example, the farmer who was selling his cattle at \$600 and who then had to sell them for \$150—

Mr. Richard Taylor: Making significant profits does not breach the Competition Act. We concluded that it was the closing of the market that caused the prices to go down. They bounced back to almost what they were before the crisis.

[English]

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Smith.

We'll move to Mr. Sorenson for one quick question. That's all we have time for.

Mr. Kevin Sorenson: I think some of my colleagues here have drawn attention to what we've been through, and obviously you understand what this industry has been through in the last two or three years. It's really no surprise that some packing plants would try to expand and acquire other packing plants. That should be no surprise, given the profits that some of these have experienced over the last number of years.

My colleague from the Bloc asked about the small packing plants that are disappearing. The Canadian public have made it very well known, and I think all of us realize it, that we want to see more packing plants starting. We see that in the west. We see new smaller packing plants starting up.

Do you believe that this acquisition, having Cargill purchase Better Beef, will encourage or discourage new start-up plants here in Ontario?

Mr. Gaston Jorré: That's not really the question we had to answer under our act. That's the first thing I'd point out. The question we had to answer is whether or not under section 92 there'd be a substantial lessening of competition. As to the broader effect—

• (1630)

Mr. Kevin Sorenson: If the government is doing everything.... If all parties recognize that we want more start-ups and programs are put in place for more start-ups, do you think this will encourage or discourage those?

Mr. Morgan Currie: One of the factors we look at under the merger provisions is barriers to entry. We understand that there are some substantial barriers to entry in this industry. There is a question of economy of scale and also that companies have to sell their beef somewhere. An additional risk is now with the border not as open as it was before, but cattle are moving. We also have the U.S. competitors in there. There are risks, and financial risks.

During the course of our examination, we became aware of new potential entrants who were enthusiastic about it. All I can say is they had no reason to believe that this acquisition would limit their ability to do so, albeit that it is difficult to enter this industry.

Mr. Richard Taylor: May I add something, Mr. Chair, that will also deal with this other issue?

One of the issues facing new entrants is if they can compete in the economies. I'm fortunate enough to have a summer place near Shawville, and I understand from reading the local paper that they're looking to put a \$10 million packing plant that would perhaps do 400 cattle a week. You're looking at Better Beef doing 5,000 or some other huge operations. We don't deal with the economies.

I think if they get a lot of local support, and there's been a lot of support, with a lot of farms selling their beef now.... I know the local Giant Tiger up in Shawville sells the beef from the farm directly, so they get a lot of support. They are obviously trying, and this is from what I observe up there. If they can do it, I can tell you one thing. If one of the large packing plants uses an exclusive contract, or tries to put them out of business using an anti-competitive act, that could well be an abuse of dominance.

We can't do anything to change the economics of beef packing at the Competition Bureau; that's not our mandate. But if they use anti-competitive acts to try to knock these companies out of business by using captive supply, by keeping the cattle away from them, by putting them out of business by offering too low a price to farmers, if the big packing companies do that, then there could be a case for the Competition Bureau, and we would seriously look at it.

The Vice-Chair (Mr. Gerry Ritz): Thank you, gentlemen, for your interventions today. It's always a great topic. We understand there will have to be changes made to your mandate to answer a lot of the questions the members put to you. Whether that will happen or not is anybody's guess.

Thank you very much for your interventions today and your report to us. We'll see you again on Wednesday, I understand.

Our next session will be in camera. I'll therefore ask everyone to leave the room other than staffers of members and of course support staff.

This meeting stands suspended.

[Proceedings continue in camera]

• (1633) _____ (Pause) _____

• (1719)

[Public proceedings resume]

The Vice-Chair (Mr. Gerry Ritz): Next on the agenda, we have some motions before us. Mr. Bellavance has put forward a motion, with an amendment by Mr. Anderson attached. That's still the way it stands. We'll move to those motions.

Mr. David Anderson: The intent was to make a friendly amendment to Mr. Bellavance's motion. The amendment reads similarly to the motion that I presented. It will be subsection (4):

Given that a large majority of Canadian agricultural producers rely on exports and improved market access, the Government of Canada should mandate our World Trade Organization negotiators to work toward (a) the total elimination of export subsidies; (b) the substantial reduction of trade-distorting domestic subsidization;

—“trade-distorting” is an addition to what is in the original motion—

and (c) the goal of increasing market access for Canadian agricultural products.

The Vice-Chair (Mr. Gerry Ritz): And Mr. Bellavance is fine with that?

[Translation]

Mr. André Bellavance: In fact, from the 13th to the 18th of December, there will be some very important WTO negotiations in Hong Kong. The reason I would like the committee to table its recommendations before the House is that there could be elections soon. I would therefore like to make sure that it is still the Government of Canada's intention to defend its supply management system. This is nothing new, it is what agricultural producers have always asked for. Obviously I am referring specifically to supply management.

A motion was recently tabled before Quebec's National Assembly by Mr. Laurent Lessard, Minister of Agriculture, Fisheries and Food, and it was along the same lines:

That the National Assembly [call upon] the federal government [...] to give its negotiators the mandate to obtain results such that at the conclusion of the current round of negotiations, the supply managed sectors will not be subject to any tariff reductions or tariff quota increases.

I therefore ask this committee to agree to report to the government on this issue and to ask it to continue to support supply management.

• (1720)

[English]

The Vice-Chair (Mr. Gerry Ritz): So you're accepting the friendly amendment?

[Translation]

Mr. André Bellavance: Yes.

[English]

The Vice-Chair (Mr. Gerry Ritz): All right, fine. That's what we needed to know.

Is the committee generally agreed?

Mr. Anderson.

Mr. David Anderson: There's just one small point.

On point (b), on the French version of the amendment there was an agreed-to change in wording—and I guess my colleague could better speak to it; I think it was “*soutien interne du pays*”.

[Translation]

Mr. André Bellavance: Yes. The words “internal support” would replace the words “subsidies to countries”.

[English]

The Vice-Chair (Mr. Gerry Ritz): Okay, do we have the wording for that? Do we know exactly what's being said here?

Mr. Easter.

Hon. Wayne Easter: Which motion are you on? There's one from Mr. Anderson and there's one from—

The Vice-Chair (Mr. Gerry Ritz): Mr. Anderson's is a friendly amendment to Mr. Bellavance's.

They were tabled as separate motions, but we're in the process of trying to make one an amendment to the other to put it forward as one motion. That's where the wording changes are coming from here, Wayne.

Hon. Wayne Easter: Okay.

I do have a problem with the way André's motion is worded. Are you ready to entertain an amendment?

I have no problem with combining the two, because I think it then deals with both supply management and open market commodities and asserts to a great extent the position of the government.

The problem with the way Mr. Bellavance's motion is worded is that it completely ties the government's hands currently from even what we have on the table.

• (1725)

The Vice-Chair (Mr. Gerry Ritz): You're talking clause 2?

Hon. Wayne Easter: Really, clause 3 is what I would amend. I think clause 2 is general enough. But before we get into amendments, simply to explain it, Mr. Chair, the government has to have some flexibility in terms of its negotiations. We went forward with a balanced position, and if we're going to achieve what we need to achieve in the open market commodities and be a part of the world trading system, how can we negotiate in a way that our supply management can still operate?

The motion of Mr. Bellavance is saying that exactly as it is at present is exactly the way it will be. It gives us no flexibility. What Minister Mitchell has proposed at the WTO is that we do set up a sensitive commodities category, that we in fact allow access through increasing quotas marginally on those supply management commodities, but keep in place the tariff wall. That way the supply management industries can still operate, can still manage. They know what their market is going to be because you've opened up a bit of access, which meets the concern of the world but allows us to operate our system basically the way it is now.

If we don't do that and we end up having to reduce tariffs, then the supply management system will be in a position where they cannot predict what their market will be.

I think this is a little too tight, and I think it will actually harm us at the end of the day. If we can't offer anything up that maintains our supply management system, we're putting ourselves in such a box that all we can do is lose on both counts. We can lose as a negotiator for the grains and oilseeds industry and also lose in terms of the supply management industries. And that's the box that this....

What I would suggest would be an amendment that would say, "Any over-quota tariff reductions or tariff quota increases are minimized to the greatest extent possible for Canadian supply management products", which opens it up a little bit but maintains supply management in a way that we have some flexibility.

Clearly, if the government is to reduce tariff quota reductions for the supply management system, and your number two would take care of it, we couldn't maintain the system then. Therefore, Mr. Chair, it's not quite as simple as it looks.

The Vice-Chair (Mr. Gerry Ritz): Let's recap where we're standing at this point. We've had agreement to make Mr. Anderson's a friendly amendment to Mr. Bellavance's main motion. That is agreed upon around the table, with the wording changes that have been put forward to Mr. Anderson's amendment. So we have agreement on that.

Now we're to the stage where Mr. Easter has proposed a friendly amendment, in his terms, to the third paragraph of Mr. Bellavance's motion so that "Any of these over-quota reductions or tariff quota increases are minimized to the greatest extent possible for Canadian supply managed sectors".

Mr. Bellavance, do you have any words?

[*Translation*]

Mr. André Bellavance: I appreciate the fact that Mr. Easter is trying to make changes that will satisfy his government, but this is precisely what the problem is, that is the lack of a strong position on the part of the government when faced with the possibility of increases in tariff quotas or over-quota tariff reductions.

We want the government to be very firm on this. We have a very strong motion from Quebec's National Assembly on that manner. I myself walked in Montreal along with thousands of Quebec agricultural producers who are affected by supply management and who are asking the government to be very firm on that point. I will therefore not change my position on that subject nor on my motion.

[*English*]

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Bellavance.

Mr. Angus.

Mr. Charlie Angus: If we are finished with Wayne, I would like to make a friendly amendment. Or do we have to continue discussing Wayne's?

The Vice-Chair (Mr. Gerry Ritz): We would actually have to do some voting on Wayne's amendment before we move to another amendment, as I understand the rules.

Is everybody prepared to vote? We have the two motions attached together now, as amended, and we have to now vote on the wording change by Mr. Easter, all right?

Mr. Anderson.

Mr. David Anderson: I'm not challenging you, but if Mr. Angus is making a subamendment to Mr. Easter's, I thought that could proceed.

The Vice-Chair (Mr. Gerry Ritz): No, we have to deal with the amendment before we deal with anything else of a substantive nature. I mean, if he's questioning a word in Mr. Easter's, then it's a different situation from his making a substantive amendment.

Mr. Easter.

Hon. Wayne Easter: Just to come back to André's point, I recognize the strong position taken by the Government of Quebec, André, and I think that is for them to do—no question. But as a government that is doing these negotiations—and I'll lay it right on the table—if we're forced to take the position outlined in this paper with absolutely no flexibility whatsoever, then clearly—and I would say this to Jacques Laforge and anybody else in the supply management industry—the industry is shooting itself in the foot, because that is the impossible. I fully support the supply management system.

And in the discussions we've had with the supply management system, it's why we put in the sensitive commodities. We're already beyond that at this point. We've already said that sensitive commodities need to be treated differently and we give every country the right to protect a certain group of sensitive commodities. But it needs to be done so that the marketing system in your country can continue to operate. And that's the position that Minister Mitchell and Minister Peterson put forward.

In other words, we can deal with the access in a small way, and not deal with tariff reductions, or we'll be in a lose-lose situation.

I just lay that on the table. That's the reality of where we're at. So I see it as a much more difficult position than the Government of Quebec's, because they're not in the negotiations. We are.

• (1730)

The Vice-Chair (Mr. Gerry Ritz): All right. We're at the point now where we'll have a show of hands on....

Mr. Bellavance, very short.

[Translation]

Mr. André Bellavance: Mr. Chairman, if there's going to be a vote on that subject, then I would like it to be a recorded division.

[English]

The Vice-Chair (Mr. Gerry Ritz): That's fine.

Mr. Kevin Sorenson: Could we have the clerk read it to us exactly as Mr. Easter has amended it? Does it include only the word "minimize"?

I normally sit on the foreign affairs and international trade committee as the vice-chair. I think what Mr. Easter is arguing is certainly reasonable. I know the intent is to make sure that supply management remains viable and isn't hindered or hurt in any way, but I'd like to hear this motion.

The Vice-Chair (Mr. Gerry Ritz): Okay. You have a copy of it as it stands, right?

Mr. Kevin Sorenson: I just have this.

The Vice-Chair (Mr. Gerry Ritz): Okay, that's what everybody has. But you don't have Mr. Easter's, and that's what Mr. Fréchette is showing him at this point.

Hon. Wayne Easter: Okay, you read it in.

The Vice-Chair (Mr. Gerry Ritz): The third paragraph under Mr. Easter's amendment would then read:

That the Government of Canada mandate its negotiators so that at the conclusion of the current round of negotiations any

—this is the new wording—

over-quota tariff reductions or tariff quota increases are minimized to the greatest extent possible for Canadian supply-managed products so that these sectors continue to provide farmers with fair and equitable market revenues.

There's a blending of Mr. Bellavance's, but the main thrust of Mr. Easter's is that any changes would be minimized to the greatest extent possible, as opposed to absolutely none under Mr. Bellavance's motion.

Is everybody clear?

We've had discussion on all of it. We've gone around the table. Everyone knows what we're voting on. At this moment the motion before us is the amended version by Mr. Easter.

We'll have a recorded vote.

(Amendment agreed to: yeas 6; nays 5)

The Vice-Chair (Mr. Gerry Ritz): Shall the main motion as amended carry?

Mr. Bellavance.

[Translation]

Mr. André Bellavance: I would just like some clarifications, Mr. Chairman. Will my original motion, not amended by Mr. Easter, be put to a vote?

[English]

The Vice-Chair (Mr. Gerry Ritz): No. It goes through as amended. So your motion as it was written—

Mr. James Bezan: The amendment has been carried, so now it's debate on the full motion.

• (1735)

The Vice-Chair (Mr. Gerry Ritz): We just did it.

Mr. James Bezan: We voted on the amendment, though.

The Vice-Chair (Mr. Gerry Ritz): We voted on the main motion as amended.

Hon. Wayne Easter: We voted on the amendment on the amendment. You asked the question, but if people want a recorded vote we can do that.

The Vice-Chair (Mr. Gerry Ritz): So you're asking for a recorded vote on the main motion. That's why I asked if the main motion would carry.

Okay, we'll have a recorded vote on the main motion as amended.

Hon. Wayne Easter: That's blended with Anderson's, Bellavance's, and the amendment.

The Vice-Chair (Mr. Gerry Ritz): Mr. Angus.

Mr. Charlie Angus: I mentioned before that I had an amendment I wanted to bring forward and we were going to vote on Mr. Easter's first.

The Vice-Chair (Mr. Gerry Ritz): Yes.

Mr. Charlie Angus: Because we've given very clear instructions to our trade negotiators it seems we've covered everything except one element, and I would suggest it could go in number one under the motion:

That the Government of Canada reiterate its unalterable support for supply management and single-desk selling...

Thereby we've covered off all the issues of importance to our trade negotiators.

The Vice-Chair (Mr. Gerry Ritz): Would you word it as “single-desk selling” or as STEs? That's the WTO verbiage.

Mr. Charlie Angus: I know it as single-desk selling.

The Vice-Chair (Mr. Gerry Ritz): It's your amendment, Charlie. That's fine.

We would add in that first column for Mr. Bellavance's motion:

That the Government of Canada reiterate its unalterable support for supply management and single-desk selling...

Then it carries on “as an inequitable...”, which has already been voted on.

We would have a show of hands on that amendment, or do you want a recorded vote, Charlie?

Mr. Charlie Angus: Yes.

The Vice-Chair (Mr. Gerry Ritz): Mr. Anderson, do you have a question?

Mr. David Anderson: I never thought of this until after, but are we still in camera, Mr. Chair?

The Vice-Chair (Mr. Gerry Ritz): Yes, we are.

Mr. David Anderson: And where does a recorded vote get recorded?

The Vice-Chair (Mr. Gerry Ritz): It's in camera. Some day, down the road, it might be open, but not tomorrow. The clerk guarantees to the keep the record until she retires.

Monsieur Bellavance.

[*Translation*]

Mr. André Bellavance: When I made this request, I did not know that we were still sitting in camera. I would like Mr. Angus's amendment to be repeated, because I didn't hear all of it.

[*English*]

The Vice-Chair (Mr. Gerry Ritz): Okay.

Point number one of your main motion, André, would then read, “That the Government of Canada reiterate its unalterable support for supply management and single-desk selling,” and then it carries on, “as an equitable agricultural model...”.

You're straight with that now, André?

[*Translation*]

Mr. André Bellavance: Yes.

[*English*]

The Vice-Chair (Mr. Gerry Ritz): Mr. Anderson.

Mr. David Anderson: Never mind.

The Vice-Chair (Mr. Gerry Ritz): Does anyone else have a point of order, or are we ready to go to a recorded vote on this?

Mr. Kevin Sorenson: On a point of order on this, Mr. Chair, I'm just asking for your clarification.

To me, we put forward motions, they're here for 48 hours, and in some cases 24 hours. In our committee, we can bring forward a motion in under 24 hours' notice if we have unanimous support for that to happen. I'm not certain how this committee operates, but to include single-desk selling changes the whole thrust of where this motion is going. This motion is put forward to protect supply management. We're now going well beyond that. We've talked about other sectors of agriculture, but now we're into a completely different....

Certainly I would support that type of motion being brought forward as a stand-alone motion, but when you are mixing that with this, I'm not certain that is in order.

The Vice-Chair (Mr. Gerry Ritz): Under the rules, it is in order. We're talking about an amendment to a motion that's on the floor. There has been 48 hours' notice given, and so on. We're talking about an amendment to that motion, so it actually falls under that purview, and we've accepted amendments, and so on, to it. So this has really no different standing from that.

I take your point, Mr. Sorenson, but we're into amendments to this motion, so it stands. All right?

Mr. Eyking.

Hon. Mark Eyking (Sydney—Victoria, Lib.): On the amendment that Mr. Anderson had, the intent in part (d) is continued support for orderly marketing systems in Canada.

• (1740)

The Vice-Chair (Mr. Gerry Ritz): Part (d)? Where are you? I have no part (d) on my sheet. I have parts (a), (b), and (c)—unless you're reading between the lines.

You still have the floor, Mr. Eyking.

Hon. Mark Eyking: That's fine, Mr. Chairman.

The Vice-Chair (Mr. Gerry Ritz): Okay, he withdraws.

All right, we have the amendment before us for a recorded vote. The clerk will take the call.

(Amendment agreed to: yeas 6; nays 5)

The Vice-Chair (Mr. Gerry Ritz): We now have the main motion, as amended two or three times, before us, ladies and gentlemen. We will have a recorded vote on the main motion as amended.

Mr. Easter.

Hon. Wayne Easter: James made a point there about the east versus the west.

James, it's not that at all. What we're talking about here is, if we want to do away with the Wheat Board in Canada, that should be our decision; it shouldn't be the WTO that tells us what we can do. That's what the negotiating point is. If we let the WTO tell us, we don't have a—

The Vice-Chair (Mr. Gerry Ritz): Mr. Easter, we're opening up a whole new round of debate again here.

Hon. Wayne Easter: —sovereign right as a country any more.

The Vice-Chair (Mr. Gerry Ritz): We're opening another whole round of debate, and we've actually gone beyond time as it is.

I will call for the vote on the main motion as amended.

(Motion as amended agreed to: yeas 6; nays 5) [See *Minutes of Proceedings*]

The Vice-Chair (Mr. Gerry Ritz): Mr. Bellavance.

[*Translation*]

Mr. André Bellavance: Mr. Sorenson voted in favour of Mr. Easter's amendment. Now the amendment has been passed, and he's voting against the motion. I do not understand how he's voted.

[*English*]

The Vice-Chair (Mr. Gerry Ritz): He voted in favour of the motion with Mr. Easter's content, but when Mr. Angus put in the single-desk selling, he voted against it.

An hon. member: You voted against your own motion, which is what I don't understand.

An hon. member: No, I did not.

[*Translation*]

Mr. André Bellavance: We're no longer talking about Mr. Angus's amendment, we're talking about the main motion as amended. I do not understand his vote.

[*English*]

The Vice-Chair (Mr. Gerry Ritz): Yes, we voted on adding Mr. Angus's amendment. We had a recorded division on that, and then we went to the main motion as amended several times here and had a recorded division on that.

Mr. Kevin Sorenson: On a point of order, if you really look into it, I think we did that incorrectly. I don't think you can pass an amendment and then bring forward another amendment to the same motion. You have to defeat it and rebuild it. I think we erred in the process of how we got to this. I stand to be corrected—

The Vice-Chair (Mr. Gerry Ritz): I'm taking directions from the experts at the table, Mr. Sorenson, and they're telling me—

Mr. Kevin Sorenson: We passed the motion, right? And then another amendment was brought forth.

The Vice-Chair (Mr. Gerry Ritz): No, we never passed the main motion.

Mr. Kevin Sorenson: We passed—

The Vice-Chair (Mr. Gerry Ritz): We made an amendment. We voted on an amendment to put Mr. Anderson's motion together with Mr. Bellavance's, and then we amended with Mr. Easter and we amended with Mr. Angus, as a flow, all coming out of the same motion.

• (1745)

Mr. Kevin Sorenson: Without Mr. Angus's, I would have been voting with—

The Vice-Chair (Mr. Gerry Ritz): Anyway, that's water under the bridge now, ladies and gentlemen.

We'll move on to our last order of business. The next order of business will be to bring in Mr. Measner, the CEO of the Canadian Wheat Board.

Can we agree to hold our proceedings in public?

Some hon. members: Agreed.

The Vice-Chair (Mr. Gerry Ritz): Thank you.

Welcome, Mr. Measner, before the committee. I understand you have a short presentation, and then we'll open the floor to questions.

Unfortunately, our clock is running, and I know we're going to have a vote call at 6:30, so I'll keep everybody short and sweet and try to get through everyone.

Mr. Adrian Measner (President, Canadian Wheat Board): I'll go very quickly.

First of all, I'd like to say I'm very pleased to have this opportunity to appear before the Standing Committee on Agriculture and Agri-Food.

I have had the honour and the privilege of serving as the president and CEO of the Canadian Wheat Board for the last three years, and I'm looking forward to another three-year term. The Canadian Wheat Board adds considerable value for western Canadian farmers and it's a very important company for them, and I'm very pleased to be part of it.

We are a shared-governance corporation. We have that distinction because we are governed by ten farmer-elected directors and five government-appointed directors. I am one of the members appointed by the government and I report to the board of directors, so it did select me and did recommend my appointment to the Government of Canada.

The changes to CWB's governance structure happened in 1998. They were very positive changes for the Canadian Wheat Board, as they empowered farmers to run the CWB. The ten farmers on the board of directors are democratically elected across the prairies.

It was an honour to be selected by the board of directors and, equally, an honour to be recommended by them for an extension of another three years.

Simply put, the Canadian Wheat Board is farmers choosing to market their wheat, durum, barley, and malting barley together, rather than competing against themselves on the international market. It is an organization that empowers farmers in an industry that is dominated by large multinational companies.

We sell \$4 billion to \$5 billion worth of product every year to about 70 different countries around the world, with a number of customers in each country. We are one of the largest foreign exchange earners for Canada, and we are important to the national economy, with exports flowing to the west coast ports of Vancouver and Prince Rupert, and to the east coast ports of Churchill, Thunder Bay, Montreal, Sorrel, Three Rivers, Quebec City, Port-Cartier, and Baie-Comeau.

We have a very committed workforce. An employee survey done earlier this year highlighted that over 90% of CWB employees support the goals and the values of the Canadian Wheat Board, which is among the highest level of commitment one would ever see in a corporate entity. Our employees have this strong commitment because they are working for farmers, with every benefit they can create flowing back to farmers. I'm very proud of those employees and of that commitment.

Our niche in the international market is quality products and service. In a recent survey, 98% of our customers rated our products as good as or better than the competition's, and 90% of the customers rated our service as good as or better than the competition's. We set the standard of excellence in the international market, and we are true to our vision: Canadian farmers leading the way in the global grain industry.

We are a sophisticated, leading-edge organization, with solid governance procedures and innovative marketing solutions. We use complex hedging mechanisms to manage our commodity, foreign exchange, and borrowing activities.

Over the last three years we have seen China re-emerge as our largest export customer.

We have introduced pricing alternatives to the pooling of sales returns for farmers, which also serve to enhance farmer cashflow. About 4.2 million tonnes, or 20% of our business with farmers, is through these new pricing options. The most complex and interesting one is a new daily price contract that establishes its prices based on cross-border U.S. elevator point prices. All of these pricing options maintain the power of single-desk marketing, and they are complementary to price pooling.

Over the last three years I completed an organizational review that resulted in a 20% reduction in our workforce, and a \$5.5-million yearly saving in administration costs. Recently, I restructured the senior management team to reduce numbers and levels, and to align the structure with our priorities as an organization.

I have continued to develop the previously mentioned pricing options for farmers, introduced a new transportation and handling structure for our industry partners, and put in place corporate performance measures to benchmark our strategic progress. In addition, I have continued to move forward on e-business with farmers and with the industry, and on branding the CWB and the products that we sell.

As we look ahead, we face a number of challenges. The continued pressure by U.S. and the EU, our major competitors, to do away with the single desk is the most critical one. It is unacceptable that a foreign government—or for that matter, even a Canadian government—would be able to take away farmers' right to choose to market their grain together through a single desk.

The current farm financial crisis caused by escalating input costs and low commodity prices will pressure all agricultural industries to be as responsive as possible to farmers, and the Canadian Wheat Board will need to be a big part of that. We will continue to move forward and to brand the CWB as the professional organization that it is, and to brand the products that western Canadian farmers produce as the highest quality, safest, and best value for customers

around the world. Our goal will remain to extract as much value as possible from the marketplace for farmers, and to return that value back to farmers. We are unique and we are Canadian and we work for farmers.

• (1750)

Again, I would like to thank you for this opportunity, and I'll be pleased to respond to any questions you may have.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Measner.

We'll start the questioning with Mr. Anderson, for five minutes. I'll be very strict on the time, because we're going to have to try to get around the table.

Mr. David Anderson: Thank you, Mr. Chairman.

Thank you for coming today. I have a couple of questions.

Under your watch in the last couple of years you've hired the Canadian Wheat Board minister's former campaign manager; you're putting money into a project in which a campaign manager for the finance minister is involved; you've employed David Herle, who's the Prime Minister's former campaign manager and tendering favourite; and you've now employed a PR firm to lobby for a government agency that is dominated by the Liberals.

I'm just wondering what's going on here. Why is there that close connection with this Liberal government?

Mr. Adrian Measner: It's not a close connection with the Liberal government. What we're looking at is really a dollar and cents issue. Basically, there are a lot of high-level issues being discussed right now that will have a major impact on farmers. The WTO is the most important one. Transportation has been one that's been very important from a farmer perspective as we look forward, and genetically modified wheat was another one. So we have enhanced our government relations activities on that side to ensure that we can be effective in our discussions with government.

You mentioned David Herle. He has been designing a yearly farmer's survey for us since 1998, and we've been very pleased with the work he's done on that. We continue to employ him in designing that survey. We'll tell you that the survey is actually conducted by a Winnipeg firm, but he does do the design for us.

We do have—

Mr. David Anderson: Mr. Measner, I have to interrupt you, because I have a short time here. But I'm very concerned that your enhancing government relations, as you're saying, is bringing you way too far into the Liberal camp to keep you independent of what's going on with this government.

I have a question. I've heard some rumblings that you may be considering purchasing the rail cars that you've been leasing. Is that accurate?

Mr. Adrian Measner: Yes, we have an option that was purchased a number of years ago on—

Mr. David Anderson: Can you tell me how you're going to pay for those?

Mr. Adrian Measner: It will come from farmers. Farmers would pay for the rail cars, Mr. Anderson—

• (1755)

Mr. David Anderson: And farmers aren't aware of this. I understand there may be a movement to buy some other facilities and those kinds of things as well within your organization. I'm wondering, why haven't you been clear with farmers on the intent and the direction you're headed in there?

Mr. Adrian Measner: Actually, we've had some discussion with farmers in terms of our future direction. We intend to have a lot more. The board has put together a strategic plan, and we want to have further engagement with farmers, and we do intend to over the next year or two as we devise that future with them.

Mr. David Anderson: Have you been frustrated with the attempt to get an increase in the initial prices this fall?

Secondly, you made a request about six weeks ago, and I'm wondering, did you change that request, or has your request stayed steady and it's the government that we're waiting on to make this change?

Mr. Adrian Measner: It is. First of all, my understanding is that the request was approved today and that we will be moving forward with an announcement tomorrow on it.

We did make a request, six weeks is probably the time period. I would need to check back on that, but it's in the order of five or six weeks ago. There has been one change in the request we initially submitted, but it has now moved forward and it's approved.

Mr. David Anderson: Have you been happy with this government's negotiations on your behalf? It seems to me they gave up your initial price guarantees almost immediately, gave up the foreign credit programs before the negotiations had even got rolling. I'd be interested in your comments on that.

Mr. Adrian Measner: We have concerns over the loss of the guarantees, both on the initial and the borrowing side. They are not fatal to our organization. We will need to restructure to be able to operate without those guarantees, but certainly our preference would be that the guarantees stay in place.

It's my understanding that they're not officially given up at this point in time. They are under negotiation in WTO, but it's certainly been indicated that they may—

Mr. David Anderson: I have one short question. I think my time's almost up, if I'm not mistaken, but can you tell me how much you paid for your CFA membership? I've had a number of farmers express concerns that we have a government agency spending their money to join a producer lobby organization when they have their own cabinet minister and their own ability to lobby.

I'm wondering how much you paid for that membership, and is it a full membership?

Mr. Adrian Measner: It's an associate membership. It's not a full membership. I'm going to give you a number that's very close. I don't remember the exact number, but it's around \$20,000 a year, Mr. Anderson.

Mr. David Anderson: Okay, and you have no concern about a government agency becoming part of a producer lobby organization?

Mr. Adrian Measner: This is a farmer-run organization, and we have no concern about a farmer organization joining an organization like CFA. We have aligned views in terms of WTO and the need to protect farmers' interests in those negotiations. I think there's a lot of complementary activity.

Mr. David Anderson: You have ever-expanding non-direct-marketing spending—things like communication—you've been involved in transportation projects, and you're involved in lobbying now and basically some political movement. Farmers are getting concerned about how much money is being spent on those things. Just in my office, in the space of a few hours we tracked between \$2 million and \$3 million outside of communication budgets and those kinds of things, so I think you're spending probably at least \$5 million to \$10 million in non-direct costs for marketing. It's farmers' money.

The other day in the *Calgary Herald*, Mr. Ritter said he thought that—this is my impression from his quote—he'd like to take the Wheat Board in a direction where it could deal with railways, banks, and the middlemen. Do you know what he would have been talking about? What do farmers expect when more and more of their money seems to be getting spent before it gets to them?

Mr. Adrian Measner: I can't speak about what he was referring to there, but we are trying to get a more balanced transportation act. We think the current act is too strongly in favour of the carriers and that there need to be some more shipper protections in that act. I suspect he was referring to that.

We are looking at whether we can provide some additional financial services to farmers by partnering with a bank. Those things are still in development. There's nothing firm on that side, and I expect that's what he was talking about.

The board of directors sets the budget. I take forward a recommendation once a year on the budget, and they approve the expenditures in each category of expenditures. We monitor things on a regular basis and we report quarterly to the board. I think the board is comfortable that the expenditures are doing the right things from a farmer perspective and are being effective from a farmer perspective.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Anderson.

Moving to Mr. Lapierre, do you have any comments?

[Translation]

Mr. Réal Lapierre: When you spoke you mentioned that since 2003, China had become our main client once again. Why did you say "once again"? Had they lost their status as our main buyer?

[English]

Mr. Adrian Measner: Mr. Chairman, a lot of things that happened in the Chinese marketplace have changed over the last five or ten years. They had moved to producing a lot of grain, but not high-quality grain. What has happened in that domestic market is that this wasn't suiting the consumer preference. Consumers wanted a better-quality product, so they have revised their production to only grow more quality products, and that has lowered their production levels to a point at which now they need to import.

There was a period when they were not active and we still sold to that market each year, but not in very large quantities. Now their need for higher-quality grain and the need to supply their consumers with a higher-quality product has really brought us back into the marketplace in a big way. We are the preferred supplier because we have a quality product, and I think there are a lot of good opportunities in that Chinese market as we look forward.

• (1800)

[Translation]

Mr. Réal Lapierre: I have another question. You mentioned that we probably supply a higher-quality wheat. Was that a wish or is that reality?

[English]

Mr. Adrian Measner: That is a reality. That is the rating I talked about, in that 98% of the products we provide are as good as or better than those of the competition. That's where we are today. Our niche in that international market is having quality products to supply to the world.

[Translation]

Mr. Réal Lapierre: Now I'm going to ask you a bit of a mean question. When one is in a position such as yours, does one mainly feel accountable towards producers or towards the government?

[English]

Mr. Adrian Measner: That's not a mean question. I'm paid by farmers, and my first accountability is to farmers.

[Translation]

Mr. Réal Lapierre: Thank you.

[English]

The Vice-Chair (Mr. Gerry Ritz): *C'est tout?*

Mr. Easter, for five minutes.

Hon. Wayne Easter: Thank you, Mr. Chair.

Really, Mr. Measner, although some of the discussion seemed to centre on the Wheat Board, your purpose in being here is whether or not we support your nomination to the position of president of the Canadian Wheat Board. I take it you feel you're ultimately qualified for this job, that you have been there for some time and your experience would certainly be an advantage, but could you tell us the process that the farmer-controlled board has gone through in terms of putting your nomination forward?

Mr. Adrian Measner: In my original term, they actually hired an external search firm to look at all candidates who were available for the job, and I was successful in that search. Subsequent to that they

recommended to the Government of Canada that I be appointed to that position.

This go-round, a formal search was not required. I had been performing the job for the last three years, and the board did regular performance reviews of my performance through that period. They were comfortable with that performance, and I did submit a letter from the chair of the board that actually reflected that. It was a unanimous approval of the board of directors, including the ten farmer-elected members and the four other appointed members, to have my term extended for the next three years.

Hon. Wayne Easter: Thank you.

In terms of some of the other questions raised, some of them relating to the financial matters of the board, whether it's hiring agencies for public relations or communications or to lobby government, you do have an advisory committee that I expect is involved. Do you still have the advisory committee?

Mr. Adrian Measner: No, there's no longer an advisory committee.

Hon. Wayne Easter: Your audited financial statements—could you explain that process to us? I understand that the Canadian Wheat Board holds meetings. Your annual report is part of that; there's a discussion with producers in the west; there in fact was an election. I just forget when the last election of the board of directors was—

Mr. Adrian Measner: One year ago.

Hon. Wayne Easter: Maybe you could explain that process to us. I think it does show the control that is there for the farm community in terms of running the board.

Mr. Adrian Measner: There's an election for five of the elected directors every two years. That way, there's not a full-scale change at any one time in the board. There are 10 elected farmers on the board of directors. We have an audit and finance and risk committee, which a farmer member chairs. That committee actually hires an external auditing firm to audit our books so that they can report back to farmers the final results of the year. In fact, we're in the process of finalizing last year's account at a board meeting later this week.

The board feels very accountable to farmers. A number of accountability meetings happen through the winter each year, normally starting at the end of January and moving through February and March; they actually go out to farmers, report on the financial results, and ask for input from farmers in terms of the future direction for the organization. We actually go through the results of the year and get comments and questions from farmers on that, so it's a very close relationship, a very tight relationship. The board relies heavily on input from the farmers who elect them, but they're there to represent those farmers at the board table, set the budget, and set the future direction for the organization.

• (1805)

Hon. Wayne Easter: I would take it that with that kind of process, if there were a concern about your leadership as president of the Canadian Wheat Board, that concern would have come through the board of directors—and they nominated you unanimously?

Mr. Adrian Measner: Yes, they did. We have different views at the board table in terms of the organization and the future of the organization, but I'm pleased that they did unanimously agree to this extension.

Hon. Wayne Easter: I have no further questions, Mr. Chair.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Easter.

We are moving to Mr. Angus for five minutes.

Mr. Charlie Angus: Thank you, Mr. Chair.

My main concern right now would be to hear what you expect is coming down at the WTO and what's on the line for the Canadian Wheat Board.

Mr. Adrian Measner: A number of things are being discussed. Our concerns would focus around the guarantees. We realize something may have to be given up through these discussions, but our main concern focuses around the single desk. This cannot be given up if the organization is to survive. I view it as fatal to the organization. It's what allows us to compete in a marketplace that's dominated by very, very large multinational companies. The single desk is paramount to that. We have stressed very strongly, and continue to stress very strongly, that it needs to be protected through these discussions. It is not trade-distorting; it's been taken to the highest court, the WTO court, and they've been ruled as non-trade-distorting, so it's nothing that needs to be given up in the discussions.

Those are where my concerns lie. I think there are some real opportunities on the domestic support side, and that there can be substantial reductions from the Europeans and U.S. on domestic support. It will assist farmers. Improved market access in those countries, particularly the European Union, will assist farmers, but not if we have to give up non-trade-distorting activities like the single desk.

Mr. Charlie Angus: When government negotiators are making these deals, do they come back? Do you talk with them before such decisions as loss of guarantees are made, or do you find out about them when they're done?

Mr. Adrian Measner: We will have representatives at the upcoming Hong Kong meeting and did have representatives at the previous meetings, but we are not at the table, not in the room, so we would find out the final results subsequent to the discussions.

Mr. Charlie Angus: All right.

I found it interesting when you were talking about how you were picked. The board chose an external search firm, and you were chosen through that process?

Mr. Adrian Measner: The search firm was mandated to find a number of candidates and bring them to the board. I had three different interviews with the board, during which I did presentations in terms of where I saw the organization going and what I would do if I were the CEO.

The board made the final selection. The search firm really just brings suitable candidates forward. I don't know how many candidates came forward. I just know the interface I had.

Mr. Charlie Angus: And the board is elected?

Mr. Adrian Measner: Ten of them are elected members; four others are appointed by the government; I'm the 15th member.

Mr. Charlie Angus: Okay. I just have one final comment to make.

I also sit on the heritage committee, where we've tried year after year to get the government to implement the recommendations of the Lincoln report in terms of another well-known government organization, the CBC, where the board isn't accountable, the board is chosen by patronage. The head of the CBC is chosen by patronage. There's no actual accountability review process between the board and the head of the CBC. So I'm very glad to see that it's there at the Wheat Board.

Thank you.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Angus.

That completes our first round, so I'll use the chairman's prerogative to slip a couple of questions in here.

Mr. Measner, are you concerned that the federal government refuses to pay your legal challenges? They are picking up the tab for a lot of other organizations, yet the Wheat Board seems to go high and dry when it comes to the multitude of challenges you've faced.

Mr. Adrian Measner: We have requested that we be reimbursed for some of those legal challenges, because it's very expensive. But that's not going to happen.

The Vice-Chair (Mr. Gerry Ritz): That's unfortunate, because it comes right out of farmers' pockets, then.

You also mentioned you're thinking of purchasing the cars that you now lease?

Mr. Adrian Measner: There are about 1,600 cars that are leased by the federal government. We have an option on those cars to purchase them at the end of the lease, and those leases expire, some of them, as early as January 2006. Our plan is to exercise that option on those cars, given the very attractive scenario that's there.

The Vice-Chair (Mr. Gerry Ritz): Are they part and parcel of what the Farmer Rail Car Coalition is trying to...?

Mr. Adrian Measner: No, those are different cars.

• (1810)

The Vice-Chair (Mr. Gerry Ritz): Those are separate.

Mr. Adrian Measner: Those are separate cars. They're not owned by—

The Vice-Chair (Mr. Gerry Ritz): Okay. Who will manage that fleet, then?

Mr. Adrian Measner: If we do purchase them—and we're in those discussions right now—the Canadian Wheat Board would manage them. We have 2,000 other cars that we manage.

The Vice-Chair (Mr. Gerry Ritz): The Wheat Board, then, wouldn't be in direct competition with the Farmer Rail Car Coalition, or however that ends up?

Mr. Adrian Measner: I don't see it as direct competition, but we have 2,000 cars we manage now. This would just add to that complement. The Farmer Rail Car Coalition would manage the other 13,000 cars. It's all farmers, and the farmers, I'm sure, would work together.

The Vice-Chair (Mr. Gerry Ritz): But you're also funding a portion of the work that the Farmer Rail Car Coalition has done to this point?

Mr. Adrian Measner: We have provided assistance there, because we think it's a very worthy cause, a very positive cause.

The Vice-Chair (Mr. Gerry Ritz): All right.

I'll turn it over to Mr. Sorenson.

Mr. Kevin Sorenson: Mr. Measner, welcome here.

Actually, I had the privilege of sitting right next to him all the way down here from Winnipeg today.

I apologize that I didn't recognize you; otherwise, I would have had three and a half hours of being able to question you. As it is, I get only a couple of minutes.

Mr. Adrian Measner: I guess I should apologize too.

Mr. Kevin Sorenson: No, no apologies needed.

I just want to go back to a couple of quick questions here, on this whole idea that Mr. Anderson brought out again about the Canadian Federation of Agriculture now being the group that will be representing you at the WTO. The CFA wears many hats, and they're going to be there arguing on behalf of different producers. They're going to be arguing tariffs, over-quota of tariffs, tariff quota increases, market access, and all those things.

Do you believe that they may, when they're wearing a different hat, negotiate things that may hurt the grain and oilseeds sector?

Mr. Adrian Measner: Mr. Chairman, we will be still representing ourselves at these discussions, so it's not a question of turning over our representation to them. We will work with them on a number of elements.

I guess the common theme that I see, in terms of what they're looking at and what we're looking at, is really empowering farmers. I think we're very consistent on that side. No matter what the issue is, there is a move to empower farmers, and I think we're all supportive of that. So we'll continue to do our own discussion on the WTO side. We will be in Hong Kong, and we'll ensure that our voice is strongly heard for farmers.

Mr. Kevin Sorenson: But you can't just lump all farmers together, because what's going to be happening at the WTO may not just.... I mean, when you help one group of farmers, you may not be helping other groups of farmers. Certainly CFA is very good at what they do in their representation of certain sectors of agriculture. I'm just not certain how they're going to be able to work that out with the Wheat Board.

At present, access to information does not include the Canadian Wheat Board?

Mr. Adrian Measner: That is right.

Mr. Kevin Sorenson: I guess my question to you is whether you believe that ATIs should apply to the Canadian Wheat Board. If so, why? And if not, why not? As far as I know, the Canadian Wheat Board is the only government agency or organization that is immune to access to information.

Mr. Adrian Measner: It does not apply to us, and I guess I believe it should not apply to us. We are a commercial organization, a farmer-run organization, and I think it would be unwise to allow our competitors to have access to information that we may put forward. So I don't agree that it should apply to us. We have our own policy on access to information. Certainly if individuals are looking for information, they can write to the corporate secretary's office. It will get reviewed, and as long as it's not commercially sensitive, it will be complied with.

The Vice-Chair (Mr. Gerry Ritz): Mr. Bezan.

Mr. James Bezan: Mr. Measner, I want to quickly comment that you've invested quite a bit of time and producers' money into lobbyists. I've been a member of the Standing Committee on Agriculture since I was elected last year, and the associate agriculture critic for the Conservative Party, but I've yet to be lobbied once by the Canadian Wheat Board. I haven't had your lobby firm or your hired lobbyists knock even once on my door. I would think that you're not getting a bang for your buck here. I think they're just collecting paycheques and are not going around doing their jobs or talking to people who are making decisions in these committees.

The initial prices were so low for so long that it was very discouraging for producers. It has really affected the way planting decisions are being made this year. Do you have any estimate of the loss in market share that you're going to experience this fall, this winter, and again next spring? The winter wheat crop definitely didn't get planted in the way that everybody would expect, because of low initials.

Mr. Adrian Measner: I would make a quick comment, Mr. Chairman, on the first point.

I did actually meet with some Conservative MPs two weeks ago. We are trying to make sure that we are being responsive in covering the waterfront on that side.

• (1815)

Mr. James Bezan: Did you make that meeting yourself? You didn't really need a lobbyist then.

Mr. Adrian Measner: Yes. To assist in making the meetings, it is sometimes important to do that. It's not always easy to have meetings, and we do our best on that side.

On the market-share side, it is very difficult. I think that you characterized it very well, and it's going to be hard for farmers to seed this crop next spring. I think that's going to determine what acres are used and which crops are sown. Input costs have escalated. We see the price of fertilizer and the price of fuel, and the farmers I am talking to say that it doesn't pencil out right now. There isn't enough of a commodity price to balance those higher input costs.

We don't have a good estimate in terms of what acres may have all grains in the next spring. But we're certainly hearing that there will be an increased summer fallow, and farmers will be looking at ways to put in the crop but cut down their input costs in the summer as well.

Mr. James Bezan: At the same time, there are no initial prices, and the high input costs are causing great distress on the CAIS program as well. The farmers aren't showing any kind of margin at all. It's all red ink, because they're just not working. I think that the initial prices were artificially set far too low by the Wheat Board.

Mr. Adrian Measner: Yes, there is tremendous stress. We have a business call centre, and the stress is very high. In my career of 31 years at the Wheat Board, it is the highest level of stress that I've seen through this period.

The Vice-Chair (Mr. Gerry Ritz): You've got one second left, and that's it.

Mr. Kevin Sorenson: Why would you even bring forward barley, the initial payment of barley, at 55¢ a bushel or 35¢ a bushel in northern Saskatchewan?

You talk about the crisis. I can tell you that for the barley producers back home, it is a crisis. But when they see the Canadian Wheat Board's initial price of barley at 55¢, it affects the price, in that the feedlot guys certainly know the price that the Wheat Board is offering.

Mr. Adrian Measner: Yes, I agree that the barley price is very low; it's too low.

We have early payment options to try to provide some additional cashflow for farmers. Almost everybody in the feed barley pool takes out either an 80%, 90%, or 100% EPO, which gives them additional cashflow. It's also a very good signal to the feedlots, because that gives them a guaranteed minimum price, with the pricing options that we have.

We're trying to work around that. It's a serious situation. It's very low. We recommended that it be somewhat higher on that side.

Mr. Kevin Sorenson: Wouldn't you be better off not even buying barley?

Mr. Adrian Measner: Well, we've got a very strong program this year. I can tell you that we'll have in excess of 800,000 tonnes moving out of the export market over the next two or three months. We've been very successful in buying barley this year.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Sorenson.

We'll move to Mr. Smith.

Mr. David Smith: Thank you very much, Mr. Measner, for being here this afternoon.

In the month of November, I had the pleasure of assisting at the Geneva discussions with Minister Mitchell and Minister Peterson. We had the opportunity on two different occasions to meet with the delegations from the Canadian Wheat Board and the CFA. The first time was a discussion and a consultation on the previous discussions that we were having during the day. We had a debriefing with them before leaving, to share what was going on and what was discussed during the few days that we were in Geneva.

My question would be this. I'm not an expert on the Canadian Wheat Board. How many members are there in the Canadian Wheat Board?

Mr. Adrian Measner: Do you mean on the board itself, or staff?

Mr. David Smith: For example, you indicated there are members that are part of this organization.

Mr. Adrian Measner: We'd have 460 employees, if we were staffed to full complement. We've got about 440 employees at the Canadian Wheat Board right now.

Mr. David Smith: Employee-wise?

Mr. Adrian Measner: Yes.

Mr. David Smith: But farmers who are members of this....

Mr. Adrian Measner: Oh, you mean farmers who have permit books—

Mr. David Smith: Yes.

Mr. Adrian Measner: —and deal with the Canadian Wheat Board. In the current year, it would be around 55,000 farmers, I guess.

Mr. David Smith: So 55,000 farmers.

Mr. Adrian Measner: Yes. That varies each year, but if I take the current numbers, it would be in that area.

Mr. David Smith: Okay.

If we were to send out a survey to those 55,000 farmers and ask them what their level of satisfaction with the Canadian Wheat Board is, what would it be?

Mr. Adrian Measner: There would be, I think, in the order of three-quarters of farmers who would support the Canadian Wheat Board. We do our own surveying, and that's about the level we see. So I think that's about what you would see.

Mr. David Smith: That's based on your perception.

Mr. Adrian Measner: Yes.

Mr. David Smith: The minister and the Prime Minister have both indicated that the importance of protecting and keeping the Canadian Wheat Board as it's structured is a sensitive issue with the negotiations for the WTO. Tell me, what do you foresee for the future for your organization?

Mr. Adrian Measner: Mr. Chairman, I think there are some real possibilities, as we look into the future. I talked about our forte in that international market being quality and branding the organization. We think there are some tremendous opportunities to increase our branding around the world.

Right now there are a number of customers internationally who actually label their products as being made from Canadian grain, because Canadian grain is known to be of high quality, and it actually sells their products in the marketplace. So we're looking to build on that and develop some more bilateral relations on that side and increase the recognition of the fact that it's from Canada and it's being marketed by the Canadian Wheat Board.

● (1820)

Mr. David Smith: Your product is sold mainly in which country?

Mr. Adrian Measner: The largest market is China. The Southeast Asia area would be the most important, I guess, and the largest area at this point in time. Japan is a very important market for us—very quality conscious and certainly a premium customer. We also market into the north Africa area on the durum side and into a number of the Latin American countries on wheat and durum. So it's 70 countries around the world. The bulk of it probably would be in Southeast Asia, the largest area.

Mr. David Smith: How many years have you been with the organization?

Mr. Adrian Measner: For 31 years.

Mr. David Smith: I'll share my time with Mr. Eyking.

Thank you, sir.

Hon. Mark Eyking: Thank you.

I have a different line of questioning. I'm inquisitive about the Australian system. I know a little bit. They were very similar to us before, and they went through some changes in their marketing approach. Can you tell me a little bit about the changes, and how does that translate to you as a competitor?

Mr. Adrian Measner: One of the changes they went through—and this is I think ten to fifteen years ago—was that they actually removed the guarantees they had, the borrowing guarantee and the initial price guarantee. In order to do that, they had to establish a capital base to allow them then to borrow on the international marketplace and to guarantee that initial for farmers.

They put in place, to start, about a \$700 million capital base. That's grown to about \$1.7 billion right now. They have maintained a single desk on the offshore side, so they have a single desk for exports. They have opened up their domestic markets, so they've made some changes on that side. They do not have a single desk in terms of domestic sales. And they've been given the ability to invest in offshore facilities. They have part ownership, I know, in a flour mill in China. They have ownership in some storage facilities in Egypt and so forth.

So they are actually investing in the supply chain. It's an authority that we do not have as an organization, but one that allows them to probably enhance their competitive position, because they can partner with customers.

Hon. Mark Eyking: So you see that as sometimes a little more of an advantage, and you would like to see us do it more.

Mr. Adrian Measner: Yes. There are Canadian companies out there investing in the supply chain. I think there's a void on the Canadian side, and they do have a bit of an advantage in being able to invest in facilities, yes.

Hon. Mark Eyking: Do you find them to be a strong competitor in a lot of your markets?

Mr. Adrian Measner: Mr. Chairman, they are our strongest competitor. There is no question about that. On the U.S. side, the system does not have the strength that the Canadian system has, so they're much easier to compete against, whereas the Australians have the single desk, the focused market development, the focused technical support that we do in Canada. I think we still do it better, but they are a very close competitor.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mark.

Hon. Mark Eyking: Thank you.

The Vice-Chair (Mr. Gerry Ritz): We have a couple of minutes left.

Is there any redirect from the Bloc—Mr. Bellavance, Mr. Lapierre? Anything? I guess not.

Charlie, you're all in and good.

Mr. Anderson, do you have a short redirect?

Mr. David Anderson: Yes, I have a couple of questions.

I guess I should point out to Mr. Smith, since he doesn't completely understand the Wheat Board, not having to live under it, that farmers have no choice as to whether they deal with it or not. There's no option. If you grow wheat, you have to sell your grain to the Canadian Wheat Board. There's a voluntary system in Ontario that's worked very well. We don't have that option. So when you ask how many people are involved in it, everyone has to be. The support levels consistently have been 50%. I'm sure Mr. Measner just made an honest mistake there, but he knows that surveys don't show 75% either way. It's 50-50.

Mr. Measner, do you have a signed handling agreement with the Wheat Board and the Western Grain Elevator Association?

Mr. Adrian Measner: Mr. Chairman, can I comment on the earlier comments?

The Vice-Chair (Mr. Gerry Ritz): Quickly.

Mr. Adrian Measner: Farmers do have a choice in western Canada. There are ten elected farmer members on the board of directors, and farmers elect individuals who are going to carry out their vision for the organization. In all elections, it is an election between the single desk and a dual-market platform. Right now, we have 80% of the farmer-elected members on the board supporting the single desk.

I think my numbers are accurate. I reflected the numbers we get in the survey. It's very close to that, and there's also a reflection on the board of directors.

Mr. David Anderson: Rubbish.

Mr. Adrian Measner: The second question was, do we have a signed agreement with the Western Grain Elevator Association?

We do have an agreement with the Western Grain Elevator Association. It's one that we continue to extend. It is an agreement that we would like to have updated. We've had a lot of discussion with them concerning some new terms that need to be in the agreement and some new ideas from their side. That new agreement has not been implemented at this point in time, so we're still operating under the old agreement. It continues to be extended; it continues to be signed.

• (1825)

Mr. David Anderson: I understand the main reason it's not being signed is that you refuse to submit disputes to final offer arbitration. That's available in a lot of other industries or whatever, but the Wheat Board has not been willing to agree to those terms. Is that correct?

Mr. Adrian Measner: No, that's not. In the new agreement, if it is implemented, there is an arbitration process, so that if there are issues, they can be taken to arbitration. It's under the terms of the agreement and we're prepared for that.

We're not prepared to submit our mandate to arbitration. That's where the disagreement has happened. We will not do that in the future.

So there is an arbitration clause in that new agreement, and we would like to have it implemented.

Mr. David Anderson: The government was about to give you a \$104,000 untendered contract to go lobby in the United States, when somewhere around 50% of the farmers don't agree with the position you're taking. You've had previous contracts with them in terms of this issue. Can you tell me what contracts you've had and when, and how much they were for?

Mr. Adrian Measner: I'll do my best. We've had this program in place for about three years. Really, it's a program where farmer-elected members go down into the U.S. and meet with farm groups on the U.S. side. We also bring some of them up to the Canadian International Grains Institute for a course. We've had a couple of courses on that side, and some of them have come up to Grain World, where we have a chance for additional meetings.

Again, it's really trying to make sure that the U.S. farmers understand the Canadian system—it is different—and also that we understand what the U.S. system is.

It's been in place for three years. We've had government assistance, I think, in each of those three years, but I don't have the numbers. I know what the recent one is. I don't have the numbers on the previous two years. It's smaller than the previous two years because we've been gearing up on that program.

Mr. David Anderson: Can we have them delivered to the committee? Can you deliver those numbers to the committee, please—the number of contracts, the amounts, and when they were let?

The Vice-Chair (Mr. Gerry Ritz): You can just forward that to the clerk at your convenience.

We'll go to Ms. Ur for a quick point or two.

Mrs. Rose-Marie Ur: You had indicated in your opening remarks that you had saved \$5 million. How did you do that?

Mr. Adrian Measner: We basically looked again at the organization. We have an overriding value statement at the Canadian Wheat Board that we want to add value for farmers in everything we do. So we looked at the organization and at those areas where we felt that we were not adding sufficient value and basically stopped doing those things. We reorganized so that we could—

Mrs. Rose-Marie Ur: For example...?

Mr. Adrian Measner: I guess one of the things would be that we outsourced some of the IT area. We had our own experts internally at the Canadian Wheat Board, and we felt that it was too expensive to keep them in-house. We outsourced part of it so that we could bring in outside expertise when we needed it and be more fluid on our costs.

We also combined some of the areas in the Canadian Wheat Board to gain additional synergy. That allowed us to reduce staff members, and so forth. We outsourced the cafeteria, which was again done in-house. It was things like that, that we felt that we could do away with. We outsourced building security. It was areas in which we could cut costs but still provide the service we needed to for farmers.

Mrs. Rose-Marie Ur: Thank you.

I have one last question, because I've been on the short end of the stick here.

I realize that you have 2,000 cars that you look after now. You don't think you'll jeopardize the reason you're there, to look after the grain prices for grain producers, by taking on a possible additional 1,600 leased cars. Do you have the capacity to do that as well as to ensure that the farmers who use the Canadian Wheat Board actually get the highest price?

Mr. Adrian Measner: Yes.

Mrs. Rose-Marie Ur: You're not going to compromise what's the real reason the Canadian Wheat Board is there.

Mr. Adrian Measner: No. In fact, it complements what we're trying to do in terms of maximizing revenue. I think this gives us extra leverage with the railways. Transportation is the highest cost that farmers face right now. I think any additional leverage we can have for farmers against the railways is positive for them.

Mrs. Rose-Marie Ur: Will this be cost-saving to the farmers?

Mr. Adrian Measner: Yes. We think there's a positive business case on this, and it will be a cost saving for farmers.

Mr. Charlie Angus: Do we have time for this? There's a vote and maybe we should go right now.

The Vice-Chair (Mr. Gerry Ritz): Yes, we do, Charlie. The bells haven't started ringing yet, so I let it stretch a little bit. We got started late—

Mr. Charlie Angus: They're e-mailing me to get my rear end over.

The Vice-Chair (Mr. Gerry Ritz): All right, don't panic, Charlie.

● (1830)

Mr. Charlie Angus: I'm more frightened of the whip than I am of you, Mr. Chair.

The Vice-Chair (Mr. Gerry Ritz): You shouldn't be, because I'm here.

Mr. Measner, thank you so much for your presentation here today. The committee will probably discuss a few things just as soon as you're outside the door. We wouldn't want to do it in front of you, sir, or behind you for that matter. Thank you so much for your presentation.

We have one other order of business here yet today.

A voice: Do we have to go in camera for this?

The Vice-Chair (Mr. Gerry Ritz): No.

We actually have two functions ahead of us today, if we just have a minute. The one is the decision on Mr. Measner's appointment. There are three options: report to the House pursuant to the Standing Orders, call further witnesses, or take no further action. I stand at the committee's disposal as to which one of those three we decide to take. I think we had a good fulsome hearing here today. I'll leave it to the committee. But make it a very short discussion.

Hon. Wayne Easter: I would suggest, Mr. Chair, that we take no further action. He has been nominated with the unanimous position of the board. We may differ on the Canadian Wheat Board as a whole, but they have nominated him and I think we should support it.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Wayne.

David.

Mr. David Anderson: You just made a mistake, I think, in speaking. If you want to carry this forward, you want to report it to the House, right, not take no further action?

The Vice-Chair (Mr. Gerry Ritz): No, we could report to the House that there's no further action to be taken.

Mrs. Rose-Marie Ur: No.

Mr. David Anderson: If you take no further action that doesn't carry it forward.

The Vice-Chair (Mr. Gerry Ritz): Yes, it does.

The Clerk of the Committee: Yes, it does. I write to the Privy Council.

The Vice-Chair (Mr. Gerry Ritz): The clerk handles it, like she does so well on all these other issues.

So we leave it in the hands of the clerk, and we take no further action as a committee. Everyone's okay with that? All right, his appointment will carry through.

(Motion agreed to)

The Vice-Chair (Mr. Gerry Ritz): Now, secondary to that, we've also had notification that the appointment of John Ryan, the head of Farm Credit Canada, is up for review. Personally, I think John has done a tremendous job.

Mrs. Rose-Marie Ur: I second that.

The Vice-Chair (Mr. Gerry Ritz): Rose-Marie seconds that.

I think as a committee, we could probably have his position again, take no further action.

Hon. Wayne Easter: Waive further consideration of the nomination.

The Vice-Chair (Mr. Gerry Ritz): Waive further consideration of the nomination. Wayne's a mind reader; he got there ahead of me. Is the committee fine with that? As a whole, agreed unanimously? Good, the clerk then will report our wishes.

Mr. David Anderson: Is this recorded as unanimously, or on division or whatever? We didn't have that choice on the first nomination.

The Vice-Chair (Mr. Gerry Ritz): If you would prefer it on division we could say that.

Mr. David Anderson: On division on the first one, then, if that's offered

The Vice-Chair (Mr. Gerry Ritz): Okay, on division on the first one, unanimously on the second. Okay, as a committee we're fine with that.

(Motion agreed to) [See *Minutes of Proceedings*]

The Vice-Chair (Mr. Gerry Ritz): The bells have started to ring, and this committee stands adjourned at this time. Great job, thank you.

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