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**Monday, June 9, 2008**

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**Chair**

**Mr. Garry Breitkreuz**

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## Standing Committee on Public Safety and National Security

Monday, June 9, 2008

• (1535)

[English]

**The Chair (Mr. Garry Breitkreuz (Yorkton—Melville, CPC)):** I'd like to bring this meeting to order.

This is the Standing Committee on Public Safety and National Security. We are in meeting 35. The first part of our meeting today is public. We will be continuing our study of contraband tobacco.

I would like to welcome our witnesses from the Ontario Flue-Cured Tobacco Growers' Marketing Board. We appreciate you coming here. You have been waiting for a little while. We look forward to what you have to tell us.

The usual practice is to let you have an opening statement of approximately ten minutes, if that's all right. I would ask that you introduce yourselves, maybe explain what your positions are, tell us a little bit about yourselves, and then begin your presentation.

Whenever you're ready, go ahead.

**Ms. Linda Vandendriessche (Chair, Ontario Flue-Cured Tobacco Growers' Marketing Board):** Thank you.

Good afternoon. I am Linda Vandendriessche, chair of the Ontario Flue-Cured Tobacco Growers' Marketing Board. With me today is Fred Neukamm, vice-chair of the board.

We would like to thank you, Mr. Chairman and members of the committee, for the opportunity to appear before the committee today.

Empowered by our Ontario Farm Products Marketing Commission, our board is responsible for all production, marketing, and advocacy issues relevant to all Ontario flue-cured tobacco farmers. Each year, based on the trade's purchase intentions, the board sets a crop size. It is our responsibility to enforce stringent regulations, issue production licences, and organize a manageable flow of tobacco to our auction exchange. We have a number of checks and balances—crop surveys, on-farm inspections, and other things—within our system that allow us to monitor each farm unit to ensure that there is compliance with our rules and regulations.

Most Canadians are aware that flourishing contraband activity results in billions of dollars being lost to government coffers, legal cigarette manufacturers, and retailers. What most Canadians are not aware of is the effect of contraband on tobacco growers and our communities. In 1998 our crop size was 151 million pounds. Indications for the 2008 crop are ranging from 16.5 million to 20 million pounds, a drop of over 85% in just 10 years. Your committee can appreciate the huge problems of excess infrastructure that a crop of this size creates.

We believe this nosedive in demand can be largely attributed to the fact that the contraband and counterfeit product of today does not include our highly regulated Ontario-grown leaf. Legal and illegal manufacturers are importing countless truckloads and containerloads of uncontrolled, cheaper leaf daily. Cigarettes manufactured by the legal domestic companies historically have contained approximately 95% Canadian leaf. Now the Canadian content is below 50%.

Under our current system, all flue-cured tobacco grown in Ontario must be sold through our board. The board is the only authority that can issue a licence to grow and market flue-cured tobacco. We also have the authority to revoke a licence if a farmer is convicted of participating in an illegal act. We can cancel basic production quota or marketing quota, or refuse to issue shipping instructions. In 1999 four producers were charged by the Royal Canadian Mounted Police and convicted for selling tobacco illegally. In this case, the board cancelled a total of 532,702 pounds of basic production quota.

Although our power over production extends over the entire province, production on native reserves appears to be exempt. A few acres of flue-cured leaf was grown on Six Nations reserve in 2006. Last year production on the reserve expanded to around 150 acres. Curing facilities have been moved onto the reserve, and experienced personnel have been hired to oversee the operation.

We took this information to the RCMP. To our knowledge, the crops were harvested. We are not aware of steps that were taken to curtail the existence or expansion of future leaf production on the reserve.

Within our system, if anyone under our jurisdiction without a licence plants a crop, that crop is destroyed. Just three years ago we destroyed the crop of one of our farmers who failed to report a field of tobacco to us.

Historically, the majority of our producers have operated within the boundaries of the law. However, in these difficult times, criminals are preying on our vulnerable, debt-ridden farmers. They are offering them an opportunity to grow and sell their leaf under the table, with no taxes or fees to pay—just cold, hard cash upon delivery. We fear this problem will escalate as farmers are forced to look for a means to survive and to service debt.

● (1540)

Robberies are on the rise. Since January 2007, in excess of 2,000 bales of tobacco have been stolen from tobacco growers' barns. When you convert those pounds to cigarettes and calculate the potential taxes, you are looking at an excess of 11.5 million stolen tax dollars, not to mention a significant loss and threat to the farm family as well.

A short time ago we met with representatives of the Canadian Revenue Agency, the Ontario Provincial Police, the RCMP, and the Ontario Farm Products Marketing Commission to discuss everyone's roles and responsibilities relevant to contraband control. We were surprised to learn that the OPP had no jurisdiction in enforcing the board's regulations relevant to production and marketing controls. This responsibility falls on the shoulders of the short-staffed RCMP.

Over the past three years we have passed on 28 tips regarding alleged illegal activities that have been provided to us, but we are not aware of any arrests that have been made. We know that manpower is limited, and regrettably there are many fronts for the RCMP to cover during this period of lawlessness.

Last year, representatives from the CRA met individually with tobacco growers to determine if the farmers had a suitable bookkeeping and record system in place. These meetings also provided the CRA with an opportunity to ensure that the rights and obligations of a grower under the Excise Act 2001 were understood.

Although we believe the intentions of this exercise were good, inexperience and a lack of understanding of the Ontario system amongst the field team created significant confusion. For example, some farmers were told they could sell their leaf directly to export buyers. This created major confusion. While selling directly to exporters is permitted under the Excise Act, under Ontario law and our regulations all flue-cured tobacco grown in the province of Ontario must be sold through our exchange.

It is our understanding that the second visit within a year of the first was part of the original plan of CRA. We would caution field representatives to be well versed in precedence and the laws of the land prior to another meeting with our farmers.

We can assure you that we take our mandate very seriously. We have done and will continue to do all we can to ensure that our membership operates within legal guidelines. However, times are desperate, debt loads are unmanageable, and we are looking at the smallest crop in our history. Unquestionably, the lure of fast cash is intensifying.

We want to deal with one issue head-on here today. At a meeting of this committee several weeks ago, there was a discussion between representatives of two tobacco manufacturers who disagreed on the nature of the majority of smuggling. One said the problem originated largely as a cross-border issue; the other suggested the Ontario farmers were to blame.

Although we acknowledge that there may be some illegal sales off Ontario farms, we disagree vehemently with the suggestion that most of the illegal tobacco sales originate on Ontario farms. We believe the RCMP is right when it states that currently the largest proportion

of all contraband tobacco seized by the RCMP originates from illicit manufacturers on the U.S. side of the Akwesasne territory.

● (1545)

As we said at the outset, we have a rigorous survey and inspection system; we do spot checks and inventory counts to ensure that tobacco farmers are following the rules. We hear reports of some leakage, but we know from our inspections that almost all tobacco grown in Ontario is sold legally. We are frustrated, however, at the RCMP's lack of resources to deal with the issues in our neighbourhood and follow up on the tips they are provided. We believe the lack of a solution to our infrastructure problems means the risk of illegal sales is increasing exponentially as we speak.

This is because until the last few years farmers were terrified to sell illegally because of the board's stiff penalties, penalties that make those under the Excise Act seem tame by comparison. A farmer who sells illegally is risking almost everything he has, under our quota system. But with the collapse of the market and no government help, the quota will lose its value and farmers will not be deterred from selling illegally.

The only solution to this issue is to rid tobacco farmers of excess infrastructure. A fair and universally accessible exit plan could ensure economic integrity.

We are encouraged by the government's commitment to action against contraband. We firmly believe that criminal activity will subside considerably when the laws of the land are enforced on all Canadians. We strongly urge Minister Day to ensure that comprehensive solutions to the contraband plague are identified immediately and that tobacco farmers are part of that solution.

We are ready and willing to participate and cooperate fully to reach a much-needed resolve.

Thank you for your time and attention.

● (1550)

**The Chair:** Thank you.

With you is Mr. Fred Neukamm.

You didn't introduce yourself, sir. Could you perhaps tell us who you are and what you represent?

**Mr. Fred Neukamm (Vice-Chair, Ontario Flue-Cured Tobacco Growers' Marketing Board):** Yes, thank you, Mr. Chair.

My name is Fred Neukamm. I'm the vice-chair of the board. Both Linda, our chair, and I are tobacco producers. We are both farmers. We are an elected board. The quota holders, our membership, elects us. I've been the past chair of the board for a number of years, and I am currently the vice-chair.

Certainly we are very interested not only in the contraband issue from a broader sense, but certainly we believe the contraband is a major contributor to our economic demise. There's a complex relationship involving government policy, the legal manufacturer's response to that policy, and of course the contraband issue. As our chair outlined in her presentation, our crop volumes have dropped dramatically as a result of these complex relationships.

**The Chair:** Thank you very much.

We'll begin our questioning with the Liberal Party, for seven minutes. Who would like to lead off?

**Hon. Ujjal Dosanjh (Vancouver South, Lib.):** Do you want to go first?

**Hon. Sue Barnes (London West, Lib.):** Okay. I have a couple of questions, and you can ask a couple.

We had the RCMP here at the beginning of the sessions. In fact they were the first witnesses. I don't remember them telling us that they lacked resources to deal with this problem. In fact they came to us with a shiny new booklet that talked about a new strategy, and I certainly didn't hear that. But are they saying it to you? It seems to be one of the themes inside this presentation today. Is that something that has been expressed to you?

**Ms. Linda Vandendriessche:** Yes.

I can answer that question by telling you that we have had an opportunity to meet with the RCMP, the CRA, and others, and at that time the resources were few. I can't tell you exactly how many RCMP officers are allocated to tobacco, but it's not very many. And they have indicated that they have a shortage.

**Hon. Sue Barnes:** Also today you talked about robberies of tobacco directly from the farms. Was there also a lack of resources to deal with those thefts?

**Ms. Linda Vandendriessche:** Exactly.

**Hon. Sue Barnes:** So they were never followed up, or...?

**Ms. Linda Vandendriessche:** They were identified too. The RCMP was called in. But you have to remember, at that particular time we were told that there were only two RCMP officers allocated to the tobacco and there was some difficulty in getting them out there. But the OPP would come out, because it is a theft. Regardless of what the theft is, the OPP does come out. But there haven't been any convictions to date.

**Hon. Sue Barnes:** In the concluding paragraph you say the only solution to this issue is to rid tobacco farmers of excess infrastructure, and that a fair and universally accessible exit plan could ensure economic integrity.

Now, not everybody is conversant with the economics of tobacco farms, so for the record, could you explain to us exactly what you mean by the exit strategy?

**Mr. Fred Neukamm:** As many of you may be aware, we operate under a supply-managed quota system, and with the precipitous decline in the legal demand for our product, we have a quota-holding membership of 1,559 individuals. Currently the legal demand for the product would support only roughly 200 medium to large-sized farms, so there is a massive over-infrastructure in our sector.

We were successful in 2005 in getting government support for a partial quota buyout. It was under the TAAP program of 2005. We've been asking the government since that time to continue with that process to help farmers exit tobacco production.

When we suggest that the only solution is an exit plan, that's from the farmer's perspective. We have too many people, and there's not enough legal activity to support us all. Many of our farmers need to leave, and they need an economically viable way to leave. Having all this excess infrastructure only provides for, I would say, the lure of another form of contraband, which is the off-farm sales. We do not deny it exists. We know it does. We don't really have the resources ourselves to stop it from happening, but a managed exiting of the excess infrastructure would do a lot to eliminate that potential source of leakage.

• (1555)

**Hon. Sue Barnes:** Regardless of whether there is contraband tobacco, and notwithstanding the lost income and lost tax income to the government because of the illegal tobacco sources, would you still be looking for an exit strategy?

**Mr. Fred Neukamm:** I believe we would, because we have seen, as I mentioned in my earlier comments, that there is a complex relationship between government and the legal manufacturers. The legal manufacturers have opted to try to compete with the contraband product by lowering the price of many of their brands. In order to protect their profitability, they import huge quantities of cheaper tobacco to do so. Hence they are buying a lot less Ontario leaf. Even if the legal market were completely restored, we would not have the confidence that the manufacturers would come back to Ontario tobacco.

**Hon. Sue Barnes:** My final question to you is on the extent of the consultations the RCMP had in this new strategy, which they produced and showed us on the first day we started our hearings. Were you consulted? To what extent were you consulted? Obviously you are a major player in the control in Ontario.

**Ms. Linda Vandendriessche:** We weren't theoretically consulted for what was going to come out in the actual document. We had just been proactive in a sense by meeting with the RCMP and CRA to understand where we sat in the big picture.

**Hon. Sue Barnes:** Were you aware that they were putting together this new strategy and this new packaged product? What's your opinion of what they presented to us?

**Ms. Linda Vandendriessche:** We were aware that something was going to be coming out. We did not know how it was going to be packaged and what it was going to be, but we are pleased that government is trying to come up with a strategy to stop contraband. I don't know how much of an effect it will have. I wouldn't expect it—

**Hon. Sue Barnes:** It struck me as unusual that you really highlighted the exit strategy as your main concern, and they highlighted education among other things. There was a bit of a dissonance there.

**Hon. Ujjal Dosanjh:** On the first page of this presentation you talk about the crop size being reduced by 85% over the last 10 years. Are you suggesting that contraband is the main culprit in this?

**Ms. Linda Vandendriessche:** We're saying we can acknowledge that it is one of the pieces in the puzzle.

**Hon. Ujjal Dosanjh:** What part does contraband play in this reduction? What percentage of the 85% would be attributable to contraband?

**Ms. Linda Vandendriessche:** I don't think I can be specific and give a percentage. It's significant, in the sense that if legal sales had continued, we were growing a sized crop, and there weren't all the other issues that complicated the situation.... It's difficult to say that contraband is the only one. There are many.

**Hon. Ujjal Dosanjh:** By "other issues" you mean a general reduction in the use of tobacco, and a general reduction in international sales.

**Ms. Linda Vandendriessche:** Yes.

Importing is a big issue. As the vice-chair has explained, if the companies didn't have to go to a cheaper use of tobacco and the price of cigarettes wasn't so high, you wouldn't have contraband. People would be buying it legally if it were at a price they wanted. But the demand is still there, so unfortunately people are using the illegal tobacco.

**Hon. Ujjal Dosanjh:** You must have an opinion on why you think the RCMP has not been able to enforce the law against contraband. Do you want to share that with us candidly?

**Ms. Linda Vandendriessche:** In my opinion—and it is just an opinion—I think they were short-staffed, and are short-staffed, in terms of following up on a lot of these leads. And the border control is significant. It's not just one thing; it's many things.

• (1600)

**The Chair:** Thank you.

We'll go over to the Bloc Québécois. Monsieur Ménard, are you going to lead off?

[Translation]

**Mr. Serge Ménard (Marc-Aurèle-Fortin, BQ):** Thank you.

I don't know whether you understand French, but I have a good understanding of English.

**Ms. Linda Vandendriessche:** I speak some French, but not a lot.

**Mr. Serge Ménard:** Can you hear the interpretation? I hope I'll be granted the three lost minutes.

[English]

**The Chair:** I will take it into account. I've always been fair with you.

[Translation]

**Mr. Serge Ménard:** I know.

As we have little time, I'm going to take it for granted, from what you've just said, that the decline in demand for your product is far greater than what would be justified by the drop in tobacco consumption in Canada. Is that correct?

[English]

**Mr. Fred Neukamm:** That's correct.

[Translation]

**Mr. Serge Ménard:** Then you have all our sympathy, and we too would like the RCMP to do more to enforce the law. If smokers get into the habit of smoking foreign or contraband tobacco, that could last a long time yet.

We've known for years that tobacco use is dangerous. For years as well, the government has been applying a policy to reduce tobacco use. How is it that, after all this time, you haven't implemented a policy to transform your agriculture, to grow something else besides tobacco?

[English]

**Ms. Linda Vandendriessche:** Thank you for the question.

Tobacco is still a legal product. It has been part and parcel of southwestern Ontario for many years. There has always been a demand for the crop, and we produce it. But we grow other crops as well. We grow beans, and we have ginseng. So farmers have other crops as well, but their mainstay has always been in this particular area of tobacco.

The land is made up of very sensitive soil. It cannot sustain some particular crops. It is a light soil, and it requires a significant amount of irrigation. We couldn't spend the input cost on irrigation of a corn crop in comparison with the return on a tobacco crop.

No one anticipated the decline to occur so quickly. Our farmers are resourceful. They have been working hard to make a transition. But you have to understand that in 2001-02 we made a conversion of our kilns from direct fire to indirect fire, which cost significant dollars. At that particular time, we were growing 36% of our crop allotment in quota. We were feeling that we were still within the ball game to continue, and farmers took on significant debt. With significant debt you have to continue to farm the crop that pays the bills. At that particular time it was tobacco.

No one anticipated that coming up in 2008 we would be looking at a 7% growable. No one could have realized that this decline could happen that quickly. We are resourceful, but we want to have a managed exit. We want to have a program that would make sure that we could pay off debt and move forward. We cannot take on further debt.

• (1605)

[Translation]

**Mr. Serge Ménard:** I understand, but you know we all hope, even though it may be illusory, that no one will smoke tobacco in Canada.

Are you prepared to consider the fact that you will eventually have to switch to other crops on your lands?

[English]

**Mr. Fred Neukamm:** Yes, absolutely. To add to what Linda was saying, and in answer to your question, we do want to move forward. We do want to exit tobacco production. But we cannot do it alone, and that is why we have approached the Government of Canada and the Government of Ontario to assist us.

Our request is not unique. On two other occasions in Ontario there was a partnership between both levels of government that saw quota surrendered and farmers leave tobacco production to go into other endeavours. It happened in the mid-1980s and it happened again in the spring of 2005.

We've been requesting that the job be completed and that a program be put in place, over whatever remaining life this industry has, to exit all tobacco farmers out of tobacco eventually.

[Translation]

**Mr. Serge Ménard:** Is there currently a government-funded exit program?

[English]

**Ms. Linda Vandendriessche:** There isn't at the moment.

[Translation]

**Mr. Serge Ménard:** There isn't any at all?

[English]

**Mr. Fred Neukamm:** There is not.

**Ms. Linda Vandendriessche:** At this moment, no.

[Translation]

**Mr. Serge Ménard:** But there previously have been, haven't there?

[English]

**Ms. Linda Vandendriessche:** Yes, there have been programs in the past. As we indicated, the TAAP program was the last program we had for the Ontario grower. That was in 2005. Approximately 232 farmers were able to exit. More than 700 bid and applied to try to get out, but there was only enough money to cover those 232 farmers. All the remaining growers in Quebec were allowed to exit, and they got an exit program. Many years ago Prince Edward Island received an exit program.

So there was one in Ontario in the past, and we are just trying to move forward in a transition outwards.

[Translation]

**Mr. Serge Ménard:** I'm a city boy—I was nearly born on the sidewalk—but I don't like to watch agricultural programs. I think it's an occupation that requires a considerable degree of versatility. However, we often hear it said that it's bad for the land always to grow the same thing and that ultimately it's good to change crops.

Isn't that true about tobacco as well?

[English]

**Ms. Linda Vandendriessche:** The agricultural practice of growing tobacco is on a rotation. There is no way we grow tobacco on that sandy soil every year. We will rotate to rye, always to a grain crop, and straw, because we have to put that nutrient back into the ground. So we rotate. Sometimes we'll grow it every other year or every third year.

We are very good stewards of that sandy soil. We as tobacco producers are extremely responsible to our sensitive soils.

[Translation]

**Mr. Serge Ménard:** I imagine you need investment in order to switch from one crop to another. I understand that. So I won't ask

you to explain that to me in detail; that could take more than the afternoon.

That said, I do want to understand the nature of your requests. You're prepared to rotate crops, but the investment it would take to completely get out of tobacco growing is too high to main the current transformation rate.

Did I understand correctly?

[English]

**Ms. Linda Vandendriessche:** Do you want to answer that one?

**The Chair:** That will have to be the final question.

**Mr. Fred Neukamm:** Yes, you're absolutely right. We are saddled with significant debt and investment in tobacco-specific infrastructure—quotas, curing facilities, and equipment—that at this stage essentially has no residual value. That is our dilemma. We want to move forward, but we are trapped.

• (1610)

**The Chair:** Thank you.

We'll now go to the NDP. Ms. Priddy, please.

**Ms. Penny Priddy (Surrey North, NDP):** Thank you, Mr. Chair.

I have two or three questions. I'll see how many we can quickly get through.

You talked about the fact that you were surprised that the OPP did not have any authority around tobacco as the RCMP does. Was it your hope or expectation that they, as well as the RCMP, would have a dual responsibility or a dual area of power?

**Ms. Linda Vandendriessche:** Exactly. That way, you can spread your resources. If you have both units working for you, there's a better opportunity of apprehension. If you have only the RCMP, located a fair distance away, it's difficult for them to get there.

We have services of the OPP and would like them to be able to participate in the control of illegal tobacco.

**Ms. Penny Priddy:** All right. It's unusual sometimes to have both.

You've also talked about the fairly specific marketing board in Ontario, and certainly the Ontario regimen. Given that most of the contraband cigarettes seem to be from U.S.-grown tobacco, could you do a very quick comparison between the system that the U.S. has in place for controlling tobacco supply, leaf supply, and Ontario's?

**Mr. Fred Neukamm:** Essentially, at this stage the U.S. has no controls. They also, for many, many years, operated under a supply-managed quota-based system. That was done away with a number of years ago. Now there are no quota controls; there are no licence controls. Growers essentially grow on a contract basis for either the manufacturers directly or international leaf dealers. That tobacco can flow in the U.S. through various means to various intermediary processors. They don't have nearly the same controls or regulations on the flow of that tobacco that we do here in Canada.

We provide a licensing system in the province of Ontario. All flue-cured tobacco grown in Ontario is under our authority and jurisdiction.

**Ms. Penny Priddy:** Basically, you're saying there are no controls or few controls when it comes to the United States.

**Mr. Fred Neukamm:** That's correct.

**Ms. Penny Priddy:** All right. Have there been any discussions that you're aware of that the farmers have taken forward with trade or interjurisdictional bodies around the dilemmas that provides?

**Ms. Linda Vandendriessche:** That would be extremely difficult for us as producers of Ontario tobacco. That is the jurisdiction of the government, and I don't—

**Ms. Penny Priddy:** No, I know that. Have you ever asked the government to do something like that?

**Ms. Linda Vandendriessche:** Oh, yes. Certainly we've tried every angle there to see whether we either stay in production and things are worked out, or...

What we're seeing now is the fact that we need a comprehensive program for an exit. That's where we realistically have to be.

**Ms. Penny Priddy:** When you talk about criminal thefts of stored leaf from barns, I'm not sure of the extent of that. Have you any sense of whether—and I don't know if you know this, since nobody has ever been caught—the criminals are part of a larger organization or they are just individuals looking to make money or they are other growers who want more tobacco? What would it be?

**Mr. Fred Neukamm:** Without the information that convictions would provide, it would be really difficult to pin that down. When we look at some of the volumes that have been stolen, one would have to assume that it is a fairly substantial type of manufacturing concern that would be stealing a large volume of tobacco. There would have to be some fairly sophisticated organization behind that. Moving that kind of volume of tobacco and processing it is not a small endeavour.

**Ms. Penny Priddy:** In 1999 four producers were charged by the RCMP, but in the last nine years there have been no charges laid?

• (1615)

**Ms. Linda Vandendriessche:** To our knowledge, that's correct.

I just want to make one point, and go back to the question you asked previously. As farmers, as farm families, we are extremely afraid of what can happen. You talk about organized crime, and you're absolutely correct. People come to the farm and threaten you and say they want the product that's in the barn. They say "We'll pay you for it", and we, as honest producers, say "No, you can't do that. We have a system we have to go through." This has happened to some of our producers, and the people have come back, and they've

stolen the tobacco. Do you know what fear that puts into a farm family?

**Ms. Penny Priddy:** Well, if they've come first and asked, who's coming to ask?

**Ms. Linda Vandendriessche:** Individuals come to ask. Individuals drive onto the farm and say "We'll give you x number of dollars per pound for your tobacco". These farmers are saying "Are you crazy?" As I've indicated, you could lose your quota if you were caught doing such things. So they send them away. And yet there have been occasions, as I've explained to you, on which a significant number of bales have been stolen.

**Ms. Penny Priddy:** Thank you. That's fine.

**The Chair:** Thank you.

We'll now go over to the government side. Mr. Norlock, please.

**Mr. Rick Norlock (Northumberland—Quinte West, CPC):** Thank you very much for coming today and helping us get a picture of this problem we have with regard to contraband tobacco. There are a lot of issues. Of course, you are part of the issue. I suppose if we didn't have a tobacco industry in Canada, it might control things, perhaps, a little bit more. We don't know that. We're looking at all aspects.

Concerning buyouts, I understand in the past there have been two. I think you mentioned that the TAAP program was the later one. What was the balance with regard to those buyouts as far as provincial government versus federal government goes?

**Mr. Fred Neukamm:** It was approximately 60-40.

**Mr. Rick Norlock:** And that sixty part was federal or provincial?

**Mr. Fred Neukamm:** That was federal.

**Mr. Rick Norlock:** Okay.

I was also very interested in the buyout because of quota. We don't have tobacco in my riding, but we do have dairy. People can own quota without actually growing the product. What percentage of your quota would be owned by people who are actually engaged in growing tobacco at this time? Would 50% own quota but not grow?

**Mr. Fred Neukamm:** Roughly 90% of our quota holders would have farms, and just purely because of the economics of that, and since we have a system whereby a producer can rent or lease quota from another, roughly 50% of our membership were active growers last year. A large reason for that is just pure economics of scale. As the quota utilization has dropped and dropped, many of our growers with smaller holdings have not been able to have a viable labour force for a small volume, so they have opted to lease that quota to a neighbour.

**Mr. Rick Norlock:** Thank you.

The response to Ms. Priddy's last question hit on something I was going to mention, so I'd like to explore it a bit further.



Also of great interest is the person who just comes to your farm, knocks on the door, and says they would like to buy so many pounds of tobacco. Of course, you wouldn't want to deal with that type of clandestine business arrangement. But when you report that to the police, what's their response, especially if there is a subsequent theft?

I come from a rural area, and we have a neighbourhood watch program. We write down the licence number of the person who comes, or a description of the car.

What has been your experience and that of the farming community in relationships with the police? It's obvious that this is an organized crime issue. When you responded to that, there was quite a concern about what else would happen if you responded.

I'd like to explore the relationship between a clandestine offer to purchase and a theft, and the relationship with the authorities after that.

**Mr. Fred Neukamm:** That is very difficult to assess and describe. As an elected board of directors, we tend not to be directly involved in the whole process of farmers giving tips. We delegate that authority to our staff. When tips come in, if a farmer happens to be willingly involved in the illegal activity, we have to oversee the process of a hearing, a judgment, and the possible quota cancellation. So we tend not to be involved in the initial stages of that.

• (1620)

**Mr. Rick Norlock:** So you would find it to be a conflict of interest.

**Mr. Fred Neukamm:** Yes. However, in many cases we're hearing that farmers are somewhat reluctant to report these individuals who visit their farms, even if they are turned away. They are fearful about giving a description of the person and the licence plate. The person who visited the farm knows where you live, and if all of a sudden they become the subject of an investigation, the farm family is fearful for their own safety.

We are aware of situations where farmers have let it be known to neighbours that they got visits and turned people away, and a couple of weeks later their barns burned down. So these are the types of things we're dealing with at our homes. This is where we live.

**Mr. Rick Norlock:** Thank you.

**Mr. Colin Mayes (Okanagan—Shuswap, CPC):** You talked about the 85% drop in just 10 years. Is that all attributed to the lack of a market, or do you think that more of your members are willing to sell that crop under the table?

**Mr. Fred Neukamm:** It has everything to do with the drop in legal demand, which is due to a combination of factors. We do not deny that fewer people are smoking. However, if the marketplace truly reflected all consumption legally, we probably would have been able to manage that decline internally. But so much of the marketplace has been displaced by this illegal activity—not only the illegal activity straight up, but the imports that the legal manufacturers are using to substitute and compete with the illegal tobacco. That is what has contributed to our desperate situation.

**Mr. Dave MacKenzie (Oxford, CPC):** One of the problems that perhaps people don't understand is we're talking about a fairly small geographic area where tobacco is grown. My understanding is that

the tobacco board can fairly well estimate how much tobacco is grown and how much is sold. So it would be rather difficult to sell a large quantity of tobacco under the table.

**Ms. Linda Vandendriessche:** Yes, it would be noticeable.

**Mr. Fred Neukamm:** That's correct.

**Mr. Dave MacKenzie:** Part of that knowledge of how much tobacco is grown is gathered by a variety of means.

**Ms. Linda Vandendriessche:** Right now the crop is planted. So after the crop is planted, we will send out our inspectors. They will go out and sometimes they will literally measure the fields. They will site-inspect and draw maps of the farms. Those farmers will be asked how many fields they have and approximately how many acres they have put in, and the inspectors will make sure there is a map of that.

So we have a pretty good handle on what's been planted and where it's at.

**Mr. Dave MacKenzie:** So the point here is that it's very difficult for a legitimate farmer to sell under the table.

**Ms. Linda Vandendriessche:** Oh, definitely. They would have to have hidden fields and areas that we haven't inspected, because we account for it; we account for how many acres are out there. If it's grown, we ask the farmer, how many pounds did you harvest, how much did you cure? And we have an order system that goes into the auction exchange to the market, so we know exactly how many pounds from each producer are going to be marketed. We know how many pounds have been marketed and what should be remaining in the barns.

We have a full system. We follow that crop from the time it's planted to the time it's sold, and after it's sold we do an inspection again. It's called a carry-over inspection. Therefore we know exactly how many pounds are carried over by each producer.

We have stringent rules and regulations, and we do enforce them, but we have a lot of factors against us right now.

**Mr. Dave MacKenzie:** And one of the biggest problems, I gather, from listening to others, is the consumption of contraband tobacco by people on the street, which seemingly has no negative effect on those who do smoke it.

If you pay \$8 for a package of 200 cigarettes, as opposed to \$8 for a package of 20, the demand will go on forever and ever.

• (1625)

**Ms. Linda Vandendriessche:** Definitely, yes.

**Mr. Dave MacKenzie:** And we see that in the tobacco part of Ontario, also?

**Ms. Linda Vandendriessche:** We see it everywhere.

**Mr. Dave MacKenzie:** That's the part that we're looking at, the contraband tobacco being bought for \$6 or \$8 or \$10 a baggy.

**Ms. Linda Vandendriessche:** You don't have to go very far. When I was walking on the street the other day when coming up to Parliament, I could see an individual sitting on a stoop with a plastic bag of rollies. So you don't have to go very far.

**The Chair:** Okay, thank you very much.

We'll go over to the Liberal Party here, but I just have a question from an agricultural perspective, I guess.

Farmers cannot grow tobacco outside of the quota system legally, can they, in Ontario?

**Ms. Linda Vandendriessche:** That's right.

**Mr. Fred Neukamm:** But for other types of tobacco they can.

**The Chair:** Oh, they can?

**Mr. Fred Neukamm:** Yes.

Our board only has jurisdiction over what is called flue-cured tobacco. It's bright Virginia flue-cured tobacco. It's a family of genetic varieties that are the main ingredients of cigarettes.

**The Chair:** Okay.

**Mr. Fred Neukamm:** There's also a small quantity of burley and dark-fired tobacco, grown mainly in Ontario, I believe, but it is outside of our jurisdiction. It is used for cigarettes and all of it is exported.

**Ms. Linda Vandendriessche:** That's right.

**The Chair:** Okay.

Is the quota given to you by the provincial or federal government?

**Mr. Fred Neukamm:** The provincial government.

**The Chair:** So it's strictly provincial.

**Mr. Fred Neukamm:** That's correct.

**Ms. Linda Vandendriessche:** We purchased that quota over time.

**The Chair:** Yes.

You're asking the federal government for the buyout? If it's all provincially administered, what's the federal government's interest in this?

**Mr. Fred Neukamm:** Obviously the federal government we believe is in a key leadership position, because it administers tobacco tax policy right across this country. You have the biggest levers at your disposal to help with the solution.

**Ms. Linda Vandendriessche:** The idea in the beginning when we looked at an exit strategy was the fact that the product was consumed across the country. And if there's a levy to be put on that product, we always said that the product should pay for an exit strategy—not the taxpayers. So if it's from the product and it's from across the country, it would be federal jurisdiction.

**The Chair:** Yes, okay.

Ms. Jennings, you had question. Be brief, as we're almost out of time.

**Hon. Marlene Jennings (Notre-Dame-de-Grâce—Lachine, Lib.):** Thank you, Chair.

Thank you very much for your presentation.

You talked about how in 2005, and prior to that in the 1980s, I believe, there was in fact an exit strategy management program. What was the total cost of that program in 2005, and if there was a federal contribution, how much was that contribution?

And given that you're asking for the same kind of thing in order ultimately to phase out the legal production of tobacco leaves, have

you estimated what it would actually cost to have that kind of a program over five years, ten years, or whatever period you think would be reasonable? What would the total cost be, and what do you think this federal government should be contributing to that?

**Ms. Linda Vandendriessche:** Well, if I can take a stab at your first question, I can tell you that there was \$67.1 million contributed by the federal government in the last TAAP program, and the provincial government contributed \$35 million. That worked out to approximately \$1.74 per pound for the individuals exiting. They received that in one lot, so they didn't have to have it over a one- or two- or three-year buyout.

We believe that as producers we should not be treated any differently or in a lesser way, and that's what we're looking at. As a matter of fact, it's not a hefty price tag. On a carton of cigarettes, over a three-year period, it would be approximately \$1 a carton.

**Hon. Marlene Jennings:** Okay.

If there's enough time, I know my colleague, Ms. Barnes, also has a question.

**The Chair:** Did you have a brief question?

**Hon. Sue Barnes:** Yes, just very brief.

**The Chair:** Go ahead, Ms. Barnes.

• (1630)

**Hon. Sue Barnes:** I know that historically you've rotated crops to put the nutrients back into the soil, but as people exited, was there not some peanut production at some point, or attempts at that, and then later ginseng? I thought the peanuts had gone, but is the ginseng there, and has anybody discovered any other crop coming forward as a replacement?

**Ms. Linda Vandendriessche:** I'll answer that.

I sat on a committee looking for alternative cropping for our area for many years, and I can tell you there is no silver bullet out there. The production of peanuts did start. It seemed like something that could happen on sandy soil. We have, basically, one individual left who produces peanuts. Most peanuts are imported, because at the end of the day it is cheaper to import peanuts than to grow them in our part of the country—or in any part of the country.

As far as ginseng is concerned, ginseng is being grown. It has its challenges as well. Ginseng can be put on farmland only once, and that's it. You can't put ginseng in, wait the five years or four years to harvest it, and then in ten years, say, put it back on that soil. You cannot. It is on a cropland once, and that is it.

**Hon. Sue Barnes:** Thank you.

**Ms. Linda Vandendriessche:** You're welcome.

**The Chair:** Does anyone else have a question?

Ms. Thi Lac, did you have a brief question?

[*Translation*]

**Mrs. Ève-Mary Thāi Thi Lac (Saint-Hyacinthe—Bagot, BQ):** Thank you, Mr. Chairman.

I want to thank the witnesses for being with us here this afternoon.

You said in your presentation that your revenues and crops had declined by virtually 85% in the past 10 years. I have that information, but I'm missing one figure.

Can you tell me how many producers there were in 1988 and how many there are now? Is that number rising? Is it falling?

[English]

**Mr. Fred Neukamm:** The number of quota owners has dropped by about 500.

[Translation]

**Mrs. Ève-Mary Thaï Thi Lac:** What was the total number?

[English]

**Mr. Fred Neukamm:** In 1998 there were 1,600 distinct family units who owned quota. Today that's roughly 1,073. In total we have roughly 1,559, but that includes husbands and wives who may individually hold quota. But in terms of distinct family units, it has dropped by over 500 since 1998.

Part of that is because of the consolidation that happened. As long as there was some profitability left in production, we were managing things internally. I would expand my business by buying up my neighbour's quota and infrastructure. We can no longer do that. So part of the drop was just internal consolidation, and part of it is as a result of the quota exit program from 2005, which resulted in, I believe, 230 of our growers accessing that program, surrendering their quota, and leaving production.

[Translation]

**Mrs. Ève-Mary Thaï Thi Lac:** In 2006, the RCMP recorded six times more contraband cigarette seizures than in 2001.

Do you think that's because of an increase in contraband cigarettes or better law enforcement?

I'm a bit surprised by your statement that your association passed on 28 tips on illegal activities to the RCMP and that nothing unfortunately came of them. The RCMP says it made six times more contraband cigarette seizures in 2006 than in 2001.

How do you explain that, please?

[English]

**Ms. Linda Vandendriessche:** First of all, I have to find out where they're seized.

**The Chair:** That will have to be the final question.

**Mr. Fred Neukamm:** Maybe just to clarify the issue, the tips that we were speaking to were specific about illegal off-farm sales. Those were the tips that have not resulted in any convictions. But I believe it is factual that the number of seizures—which I believe to be seizures of cigarettes in transit, or illegal smoke houses, as they call them—by Canadian border services are up.

I believe it's correct that those seizure levels are up. I don't have any evidence to suggest one thing or another, but first, I believe it's because there is more contraband; and secondly, I do believe they're more successful in catching them. So it's a combination.

•(1635)

**The Chair:** Thank you very much for appearing before the committee. We appreciate your testimony, and I think you've made your case very clearly.

We'll continue with our meeting now as our witnesses leave.

Mr. Brown, you had a point of order or point of privilege. Maybe you can explain.

**Mr. Gord Brown (Leeds—Grenville, CPC):** Thank you very much, Mr. Chairman.

I reluctantly bring this up. I'm bringing forward to the committee as a point of privilege an article in today's *Globe and Mail* referring to the study on tasers.

**The Chair:** Hang on a minute. There's too much noise in the background. We'll ask our members from the government side and from the opposition side to conclude their handshakes here.

I'd like to bring this meeting back to order. Mr. MacKenzie and Monsieur Ménard, please, let's resume the meeting here.

We'll go in camera shortly, but for now, Mr. Brown has an issue he'd like to raise.

Continue, Mr. Brown.

**Mr. Gord Brown:** Thank you, Mr. Chairman.

As I said, I reluctantly bring forward to the committee this point of privilege in regard to the article in today's *Globe and Mail* referring to the study we spent many hours on. We've travelled to the western coast of Canada to undertake part of this study.

I'm trying to do this so that I'm not going to confirm or deny or lend any credibility to the article, but it refers in the article—and of course I believe everything that I read in the papers—to someone who is “a source close to a report expected as early as this week”. It talks about someone “who spoke on condition of anonymity”.

I bring this up because I had a similar situation about a year and half ago where I inadvertently discussed something with a reporter, and I then had to apologize to the House. One of the members of this committee at the time, the member for Windsor—Tecumseh, quickly went to the House of Commons to talk about his privilege being breached.

I bring this up more because we've spent a lot of time on this report, and it is quite disappointing for members to not have the ability, when the report is released, to have their say on it when others are talking about it beforehand. So if in fact the comments in the article were true and did reflect what went on in this committee, someone who is party to this study was then discussing it with reporters.

So I don't know where we go from here. I really want to bring it to your attention, Mr. Chair, to ensure that members don't do this after all the work that has been brought into it. I understand first-hand that members can inadvertently breach other members' privilege, but it was this committee that dealt with this, and you would hope that wouldn't be the case.

**The Chair:** You can gather—if the article is to be believed—that whoever did it, did it knowingly, because they wanted to remain anonymous. I think that's a little different from maybe inadvertently leaking something.

The other change that has taken place is that we now have staff present. That was a change we made at this committee. Maybe we'll have to reverse that; I don't know.

Ms. Barnes.

• (1640)

**Hon. Sue Barnes:** Actually, that was going to be my point. I was so disappointed to see this. But as I read the article, it didn't point to a member of the committee; it pointed to a close source to the committee.

I think we will have the discussion, although I don't think we need to have it now. I certainly feel it's wrong. We should not allow it to happen.

I'm certainly very much thinking that we're going to restrict this to a very closed room in future.

**The Chair:** Are there any other comments?

Mr. MacKenzie.

**Mr. Dave MacKenzie:** I feel that I have to comment now, after all that. It would be in the best interest of which staff member to do that? I don't think there should be a cloud on the staff. For those of us sitting around the table, if it is a staff problem then we should talk to our staff about it, but I don't know that the staff regularly talk to the press.

So I would just like to say that I, for one, don't want the staff to have fingers pointed at them.

**The Chair:** No, and I was not indicating in any way that this is what happened. I have no idea what happened.

Ms. Thi Lac.

[*Translation*]

**Mrs. Ève-Mary Thāi Thi Lac:** Far be it from me to point the finger at employees. Often, when journalists want to talk about an MP, they say: "An MP has revealed..." However, if they say, "A source close to the committee..." you can't exclude the possibility that it's an MP. Often, when the source, even an anonymous source, is an MP or committee member, journalists talk about an MP. They cite that person as "a member of the committee" or "an MP". It's important to draw that distinction.

[*English*]

**The Chair:** Ms. Priddy.

**Ms. Penny Priddy:** Thank you, Mr. Chair.

Many people are being asked this question now by reporters, saying whatever they're saying, which I hope is nothing. I think a number of people are being asked about this as well in the interviews they're doing. I would seek your advice—just so that we are all consistent—on how far we go in saying nothing. Do we just not speak to it? Do we say that it's in confidence, or that we haven't seen the report, etc.? Since some of us will be on the same panel today, we at least will know what each other is saying.

I just want us to be consistent on this. I love consistency.... Well, I don't actually love consistency, but in this case I do.

**The Chair:** Seeing as you asked for my advice, I'll give it: nothing means nothing. I really think that's the reason we have in camera meetings, so that we can openly discuss this and we don't have to worry about somebody reporting what somebody else's position was or what took place. The minute we allow.... I mean, you can't allow anything to be divulged from an in camera meeting. The report will come out, and then we will be free to talk about it.

**Ms. Penny Priddy:** I don't disagree. After ten years in a provincial cabinet and a little bit of time here, I've had it happen a number of times. I just wanted to check it out with folks.

**The Chair:** Right.

Mr. Dosanjh.

**Hon. Ujjal Dosanjh:** I was asked as well in the scrum. I expressed my personal view. I didn't say if the committee draft was ready or not. I just spoke to the media about what I think should happen, that's all.

**The Chair:** For the information of the committee, the draft should be coming out within the next hour or so. If we don't get it while we are meeting here, Lyne informs me that it will come to your offices today. Then you can review it for Wednesday's meeting. That's just to give you an idea.

Ms. Brown.

**Ms. Bonnie Brown (Oakville, Lib.):** I'm having trouble getting really excited about this. There was a time in the early days of my tenure here when a committee report was almost a sacred thing. The committee worked very hard, finally gave birth to it, and felt a great sense of relief and accomplishment. If anybody breached that confidentiality you felt very betrayed. That happened on very few occasions. So this is not unknown in the history of this place.

But what is unknown is that as the committee is working really hard and trying to achieve as much consensus as they possibly can, if a consensus begins to emerge, the whole sacredness of committee reports is now being undermined by the Prime Minister. We had a report coming out of the agriculture committee about labelling of food, "Made in Canada", etc. They were achieving a high degree of consistency and consensus, and two days before it came out the Prime Minister—I guess somebody on your side told him what was going on—pre-empted the work of the committee and made the announcement.

Today we have another example. One of the committees has been studying the free trade agreement with Colombia. They even travelled to Colombia about ten days ago. A lot of Parliament's money was spent to send the whole committee to Colombia. They are on the verge of reporting, doing the best work they can for their colleagues in Parliament, and yesterday the Prime Minister announced that we're going to have a free trade deal with Colombia.

I'm about to throw my hands up and say "Perhaps the Prime Minister has already decided, and two days before we table our report in Parliament he'll make an announcement, so what are getting all excited about?" The sacred traditions of this place are being eroded, and we should be awake to that. Each one of us gets paid to be a member of Parliament to participate in the ways that are open to us and put a serious attempt into our work. When somebody else is scooping our work, then all the work we're doing here on whatever study we're doing becomes less valuable, and one has to wonder if one is wasting one's time.

• (1645)

**The Chair:** The issue is the leak that occurred at this committee, so I hope we're going to stick to that in our discussion.

Mr. Brown.

**Mr. Gord Brown:** The committee does not have a monopoly on all issues and topics the government happens to deal with. However, what is being referred to is that someone who is party to this study we are doing has spoken to a reporter. I can understand how it happened. If someone around here has done it and they're not going to admit to it, hopefully they will know again....

I know how a member of Parliament could fall into this, but it's not fair that others don't get an opportunity to speak to this. If there's a panel that happens to be on today, members are free to voice their own opinions about the way things are to go, but not to speak specifically about what a committee may or may not be doing in an in camera study. That is why I brought it up. It has nothing to do with what might have happened on food or a free trade agreement.

It's something that happened in this committee. I don't think we need to go for another half an hour, but it's a caution to everyone to not do this again.

**The Chair:** Right. You've all heard that. I concur. Let's let it go. Hopefully this won't happen again.

Before I came to this meeting I talked to somebody, and they had not yet heard what's happening tomorrow. You should have all been informed that our meeting tomorrow will be with the RCMP and Mr. Michel Juneau-Katsuya. So the RCMP will be here from 3:30 to 4:45, and Mr. Juneau-Katsuya will be here from 4:45 to 5:30. Hopefully we won't have any votes interrupting that.

**Hon. Sue Barnes:** Who is coming from the RCMP—what level?

**The Chair:** Can you tell us who they are?

**The Clerk of the Committee (Mr. Roger Préfontaine):** When I left my office I was still waiting for an indication from the RCMP of who the officials will be. In light of the lateness of the situation, I sent out a notice indicating only RCMP officials.

I've been assured by them that this is coming. I will send out an amended notice, if it hasn't already been done by my assistant. Perhaps it's at your office now. If not, it will be done shortly.

• (1650)

**Hon. Sue Barnes:** Thank you.

**The Chair:** We will suspend and go in camera to discuss future business.

*[Proceedings continue in camera]*





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