



House of Commons
CANADA

Standing Committee on Agriculture and Agri- Food

AGRI • NUMBER 028 • 2nd SESSION • 40th PARLIAMENT

EVIDENCE

Thursday, June 18, 2009

—
Chair

Mr. Larry Miller

Also available on the Parliament of Canada Web Site at the following address:

<http://www.parl.gc.ca>

Standing Committee on Agriculture and Agri-Food

Thursday, June 18, 2009

•(1110)

[English]

The Chair (Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC)): I call this meeting to order.

Before I ask our witnesses to present, just for the committee's information, I tabled the report that came out of our Subcommittee on Food Safety about an hour ago in the House.

I'd like to thank our witnesses today from the American Meat Institute, XL Foods Incorporated, and the Canadian Meat Council for coming before us at fairly short notice. We do appreciate that. If I could ask each one of you to do your presentation in 10 minutes or less, then we'll get to questions.

We're going to start off with Mr. Boyle for 10 minutes.

Mr. Brian Storseth (Westlock—St. Paul, CPC): I have a point of order, Mr. Chair, on what you brought up about presenting the report to the House.

Obviously a vociferous debate went on while I wasn't here. I understand the loyal opposition really wanted advance copies of the report. I found it very disappointing to see the report in the media yesterday before you ever had an opportunity to present it. I know that's something that undermines Parliament and parliamentarians. I'm not accusing anybody here of doing it, but it is something that is becoming a habit in this Parliament. We've seen it also in the culture and heritage committee. I just hope we no longer see these things happen.

The Chair: Order, please.

Thank you. It is the second report in recent times that has happened like that. It is unacceptable.

Mr. Bellavance.

[Translation]

Mr. André Bellavance (Richmond—Arthabaska, BQ): I do not want to delay the testimony of people who have traveled here to hear something else, but I do agree with Brian on this issue. I too find it regrettable that information was leaked, particularly since here, at the Standing Committee on Agriculture and Agri-Food, we have, generally speaking, had trust. Everyone has his or her political agenda, his or her issues to promote. We sometimes demonstrate partisanship, but that is understandable, all politicians do that. I found it unfortunate to read about this in the *Globe and Mail*. I even had some fears. I wondered how the chair was going to react. I absolutely wanted the report to be tabled. However, when there is a leak, you are always a little bit worried about how things will unfold.

I must say that after this article appeared, I received some telephone calls from reporters who asked me for my comments, which I refused to make because, as far as I am concerned, there is an embargo on the report until it is tabled. I would simply like to point out that this morning, in the *Gazette* of Montreal, Minister Ritz himself commented on what came out in the newspapers. He said that he was against the main recommendation, which was to hold a public enquiry, etc. I am just a backbencher and I refused to provide any comments to the reporters because I felt that, despite the fact that there were leaks, it was not my role to make additional comments because this work had been done in camera. However, this morning, people are quoting the minister's comments on one of the recommendations. I find this deplorable on either side.

[English]

The Chair: Just to clarify with regard to me as chair, we discussed this in the House of Commons yesterday, Mr. Bellavance, you and I and another member. I was very disappointed that it came out as far as the comments by the minister this morning. I have no idea that he did or didn't, and I haven't seen that article.

Mr. Easter, and then we're going to move on.

Hon. Wayne Easter (Malpeque, Lib.): Just along the same lines, Mr. Chair. I don't know how we deal with it, but it is becoming a common practice around here that before a report is tabled, parts of it end up out there. We're discouraged by that as well. I don't normally defend the minister. I don't know whether he was referring to the leaked report or to the report itself, but if he was referring to the article in *The Globe and Mail*, the minister wouldn't have much choice but to.... Although I entirely disagree with what he said, I do think he had the right to defend himself based on a leak that's out there, and so it is a problem.

•(1115)

The Chair: Okay. Thanks very much.

Mr. Shipley.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): I'm curious about what André has mentioned. I also got a call. I don't know how many others did. I did not phone them back until after the report was released. I didn't talk to them because they weren't there then.

But just for that same issue, a big reason why the other day at this committee we did not want to have a draft report of the competition put out prematurely.... We all have good intentions, but we know things sometimes happen outside of what we absolutely want. At any rate, I find it disappointing and pretty frustrating to have that out early.

The Chair: There is just one thing I'll add. I have been contacted, but all I basically gave—and it wasn't reported because it wasn't dramatic enough for the media—was the status of the report. I obviously couldn't speak to it, and I didn't.

Anyway, we'll move on from this. It's very clear that everyone is pretty disappointed with what happened, and hopefully it won't happen again.

Mr. Boyle, go ahead, for 10 minutes or less, please.

Mr. J. Patrick Boyle (President and Chief Executive Officer, American Meat Institute): Thank you very much, Mr. Chairman.

Good morning to you and to the members of the committee. I greatly appreciate the invitation to appear before you here today.

My name is Patrick Boyle. I am president and CEO of the American Meat Institute, which is based in Washington, D.C., and which was created by the U.S. meat packing industry in 1906.

AMI's 200 general members include some of the best-known meat and poultry food manufacturers in the United States, Canada, and Mexico. Collectively, our U.S. members produce more than 95% of the beef, pork, lamb, and veal in the United States, and nearly 75% of our nation's turkey products.

In many respects, AMI is a North American meat association. Our members include industry leaders in Canada, such as Maple Leaf Foods, Cargill, and XL Beef. In fact, the next witness, Mr. Nilsson, is an AMI director and serves on our executive committee. Similarly, Mexico's largest meat processor, Sigma Alimentos, is an AMI member as well. Since the inception of the North America Free Trade Agreement, companies in these three countries have used comparative competitive advantages to create a very efficient integrated North American livestock and meat market.

AMI membership is a reflection of these economic integrations, and we obviously support and encourage free trade within North America. Conversely, we strongly oppose any measure that would threaten or dampen that free trade. Mandatory country-of-origin labelling, the subject of today's hearing, is clearly such a measure that would dampen and disrupt that free trade. In short, from our perspective, COOL effectively exempts the livestock and meat industry from the proven economic benefits and opportunities provided to all three of our economies under NAFTA.

AMI's involvement in and opposition to COOL goes back more than 10 years since this dubious idea's inception in the mid-1990s. AMI opposed mandatory COOL legislation when it was first introduced and rejected, and continued to oppose it while it was being debated during the 2002 Farm Bill in the United States Congress. We were joined in opposition by major U.S. livestock groups such as the National Cattlemen's Beef Association, the National Pork Producers Council, and their Canadian counterparts. And I also do wish to note that through the entire COOL debate, the Canadian government was also resolute in opposing this mandate.

Our collective opposition was founded on the recognition that mandatory COOL was a thinly veiled non-tariff trade barrier that would discourage livestock imports into the United States, deny Canadian and Mexican livestock producers an effective return on their investments, and add unnecessary cost to the U.S. meat packing

industry and the products that we market, without providing any tangible benefit to retail grocers or to American consumers.

As you know, COOL was included in the 2002 Farm Bill; however, we were successful in inserting an implementation delay of two years. Again in 2004, as the effective date approached, we achieved another two-year reprieve. Similarly in 2006, Congress again delayed implementation until 2008. However, as the members of this committee know, elections have consequences, and in 2006 when the Democratic Party achieved a majority in the House of Representatives, along with a majority in the Senate, the proponents of COOL gained an upper hand, and further delays of this mandate became politically non-viable.

At that time it became necessary for AMI to shift its focus and resources away from advocating repeal of COOL to helping draft the most favourable legislative compromise possible under the circumstances and influencing a workable final regulation from the Department of Agriculture.

That mandatory COOL is costly and burdensome is without dispute. Indeed, in the preamble to the final rule published just last January, the USDA reiterated the conclusions about the benefits of the rule it had put forth five years ago in the initial proposal and again last September when it published an interim final rule.

Specifically, the USDA stated that the expected benefits from implementation of this rule were difficult to quantify, and USDA's earlier conclusion, that the economic benefits will be small, remains unchanged. On the other hand, USDA cost estimates were fairly specific. For example, USDA's first-year implementation cost estimates alone are nearly \$300 million for the U.S. pork industry, and \$1.25 billion for the U.S. beef industry. Moreover, USDA estimated a loss in productivity, after a 10-year period, in excess of \$210 million.

Moreover, these numbers are particularly noteworthy when one considers that they are being incurred during a time of economic challenges throughout North America and the rest of the world. These cost estimates do not include the adverse economic impact of COOL on livestock producers in Canada and Mexico.

• (1120)

Looking ahead, I have a few observations. USDA Secretary Vilsack has expressed dissatisfaction with the final rule that he inherited from the Bush administration. He has asked industry to voluntarily comply with his views on additional labelling information and include that origin information on certain processed products.

In my response to Secretary Vilsack, I indicated that there is little evidence that industry is going to incorporate his preferences voluntarily. Instead, AMI has advised our members to comply with the final rule, not with individual preferences. If the USDA wishes to pursue changes in COOL, it would need to do so through the notice and comment rule-making process. At this point in time, I do not believe the USDA has made a decision on that matter.

Regarding the role of and the interest in Congress related to COOL, I believe they are currently in a COOL oversight mode, with little interest or enthusiasm to revisit or revise the statutory mandate. COOL proponents in Congress wish to monitor compliance through the remainder of this year before they even consider taking up the issue again.

I have a final observation concerning the WTO. AMI understands the rationale for Canada and Mexico to challenge COOL at the WTO. In fact, throughout the COOL debate AMI repeatedly told Congress that COOL violates the U.S. government's commitments under the WTO and that Canada and Mexico would likely challenge it with a good chance of success. To the extent that AMI can be of assistance to your government in this dispute settlement process, we are happy to try to do so.

Mr. Chairman, thank you for the time. I look forward to answering any questions you and your colleagues may have.

The Chair: Thanks, Mr. Boyle, for staying well under the time and for a good presentation.

I'll now move to Mr. Nilsson from XL Foods.

Mr. Brian Nilsson (Chief Executive Officer, XL Foods Inc.): Thank you, Mr. Chairman, and committee members.

I wish to apologize at the start, I am not the eloquent speaker that Patrick is. I always feel embarrassed whenever I have to talk right after him.

My name is Brian Nilsson and I am co-CEO, with my brother Lee, of XL Foods. We are a private family-owned beef and livestock company. We have processing facilities in Calgary; Brooks, Alberta; Moose Jaw, Saskatchewan; Omaha, Nebraska; and Napa, Idaho. We operate on both sides of the border.

It's a pleasure to speak about COOL and competitiveness in the Canadian and North American meat sector. I'm going to touch on a few key points and then I look forward to answering your questions as they come forward.

In our company we believe we have the ability to run world-class facilities and that we can compete with anyone. Our purchase of Lakeside kind of reiterated our thoughts that there should be no shame in being a Canadian company and that we can run things as well as anyone.

In our mature cow processing plants, one of the issues we are currently facing from a competitiveness standpoint is the enhanced feed ban in the SRM rules. That puts an unintended cost on our facilities and has placed a burden on us. We've had to temporarily close our Moose Jaw plant until the fall because of it.

We feel that the effects of COOL have not been as pronounced in Canada as was initially feared. However, it's not that there aren't any effects. On the pork side of the business, we very much see some.

We believe that right now in western Canada we are seeing increased competition in that marketplace because of our purchase of the Lakeside Farm Industries. The U.S. packers are more aggressively trying to buy cattle in western Canada. The truth of the matter is that as Canadians, we are basically trying to deny them any ability to buy. We have to always weigh that thought process.

Any discount that the U.S. packers want to put on our producers will be weighed on their ability to buy those same cattle because they can put a discount on.

I look to the fact that since our purchase of Lakeside, we've seen a decrease in cattle exports to the United States. I would not attribute that decrease to any effect of COOL but to our being able to get our operating costs lower and being more aggressive in the marketplace. Much to Patrick's members' chagrin, I would like to say that our goal is that we wouldn't have to ship any cattle to the United States, so we could process them all here.

That's a brief summary of what we are and what we believe.

I look forward to your questions.

• (1125)

The Chair: Thank you very much.

We now move to Mr. Jim Laws and Mr. Brian Read from the Canadian Meat Council.

Mr. Brian Read (General Manager for Colbex-Levinoff, Canadian Meat Council): I'll start. As well, let me talk OTM from Levinoff-Colbex as well, Mr. Chair.

Just to follow up, Patrick is an outstanding speaker, Brian is... good, and now you're getting the worst. But it will improve, it will improve—

Some hon. members: Oh, oh!

Mr. Brian Read: I guarantee you it will improve as we move on to Jim.

I appreciate this. I always find this a humbling experience to be in front of such a talented group.

This issue of competitiveness is really chronic in our meat industry today. Anybody who's involved directly in this packing industry will have to agree with that. One is the SRM, and I come back to where two or three years ago this committee—I know some of them are in this room—recommended that the packers have to look at that policy. I was a supporter of that policy, but we might not be able to afford this luxury. As I said, we've seen some drastic moves, and there are other drastic moves in the meat industry threatening, believe me.

Capacity: we have capacity in this country. We were asked by this committee a couple of years ago to increase capacity. We did that willingly. There was money in the business, and we reinvested. We can compete globally. The quality that we're producing today is much superior to that prior to 2003. We made good product in 2003. We've invested in interventions, food safety initiatives, better chilling capacities, etc., so we can compete globally. But we are a little bit hooked on policy—a little bit; it's a major issue.

The other thing we're going to ask of this room is that we also impose random E. coli testing on imported beef into this country. We currently do that when we export, so we're asking for the same scenario on imported. With that again, I can go on and on, but I'd like to leave it for questions for this group, and I'll move my time to Jim.

Maybe I'm leaving you too much time.

Mr. James M. Laws (Executive Director, Canadian Meat Council): My name is Jim Laws, and I'm an executive director of the Canadian Meat Council. I'm very fortunate that both Brian Nilsson and Brian Read are here with me today, both past presidents of the Canadian Meat Council and both running real beef operations in Canada.

As you know, we're the most important of the food sectors in Canada, employing some 67,000 people. And I too won't speak for long either, to make sure you have lots of time for questions.

We did also recently appear before your red meat sector committee, and we also appeared recently before the Subcommittee on Food Safety, and the House of Commons international trade committee. We've given you our recommendations on several issues, and we are sure that you'd rather we not repeat those to you today, such as removal of inspection fees, assistance for the high cost of compliance with the enhanced feed ban, and the need for enhanced slaughterhouse competitiveness, and not necessarily capacity. It is also understood that following your committee's recent visit to Washington and your meetings with different industry groups, you have further questions specifically related to the mandatory U.S. country-of-origin labelling regulations.

In 2008, we did work closely with the Government of Canada and we did fully support its submission to the Government of the United States on their interim final rule on mandatory country-of-origin labelling. The Canadian Meat Council did host a very successful one-day seminar in Toronto on September 10, 2008, where the American Meat Institute's vice-president of regulatory affairs and general counsel, Mark Dopp, was the main presenter. Fortunately for us, many of our members' meat products are sold to the hotel and food service market and to further processors of meat segments that are exempt from mandatorily declaring the country of origin on the labels.

Of course, late in 2008, we did fully support the Government of Canada's official notification to the WTO of its concern for this U.S. rule, and of course the recent letter by U.S. Secretary Vilsack to the U.S. industry asking them to voluntarily comply with his own version of the rule, which is stricter than the published actual final rule. It does concern us, and for that reason we did also recently support the Government of Canada in putting the United States on notice that it plans to reactivate its complaint at the WTO.

With that, we welcome your questions this morning.

• (1130)

The Chair: Thank you very much, gentlemen.

Mr. Valeriote, for seven minutes.

Mr. Francis Valeriote (Guelph, Lib.): Thank you very much for attending today on short notice.

Each of you qualified your remarks by comparing yourself to the others who were about to speak or spoke before you.

The questions I ask will probably be the lightest, given that I'm, along with Mr. Hoback, the newest member to the committee with the least experience in agriculture. So just think about the following

questions that will proceed from mine after I ask, and it is about COOL.

Mr. Nilsson, I should tell you that Mr. Shipley, Mr. Miller, and I had an opportunity to meet with Collin Peterson, who is the chair of the House Committee on Agriculture, when we were in Washington. We raised the issue of a reduction of \$100 a head for the purchase of Canadian cattle. And the reason for this that's been given to Canadian cattlemen is the application of the COOL rules and the need to segregate cattle.

I can tell you clearly, unless Mr. Shipley or Mr. Miller had a different perception, that Congressman Peterson said that we were being basically hoodwinked, that it was an excuse to drive down the cost of cattle. And frankly, at this point, unless you have some overwhelming evidence to the contrary, we're inclined to believe that.

Having said that, however, you will have an opportunity to explain. My question is, isn't it true that U.S. packers already segregate animals of different ages for specific markets, and so how is segregating Canadian and U.S. animals different from segregating animals of different ages? And we want to know what specific changes to the lines of production U.S. packers have to do in order to segregate Canadian livestock that would cause a reduction of \$100 a head in cattle in the price.

That's the easy question. The others will ask more difficult ones.

Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC): That's a good question.

Hon. Wayne Easter: You're getting recognition from Pierre. That's unreal.

The Chair: Go ahead, Mr. Nilsson.

Mr. Brian Nilsson: I'll start by giving a mild example. I was just at a cattle conference on Monday and was one of the speakers. One of the other speakers was a well-known analyst. She used to work for CanFax, which is the price-recording mechanism we have in Canada. She presented a report and gave projected prices for cattle in Canada.

I found it very interesting, because she showed that if we were relying on the export market to the U.S. packers to establish our price today—the discount you talked about—our market would have to be \$75 a head lower than it currently is. She said that right now the Canadian packers are well above export level on their cattle, and that's why we're not seeing a lot of cattle being exported. The cattle that are currently going have been under contract for many months. The cash cattle are not going. So I would say that this discount isn't to the level you would forward.

Since our purchase of Lakeside, we have been very aggressive in bringing the level of processing up in that plant. We believe it's best for the Canadian industry that we process these animals here, ship the meat into the United States, and service our domestic marketplace. If you wish, they are a witness you could call to clarify some of this.

I think there was a concern, when country-of-origin labelling initially came in, that U.S. packers would be able to discount the cattle in Canada, and that the Canadian industry would have an ability to do that. It just isn't the case. We're going through a natural reduction in the herd in the cattle industry right now. The truth is that we will probably get to a level where we have hardly enough cattle to satisfy our own industry, and no extra to export.

I'll lightly touch on the segregation in the U.S., if it's okay, and draw on my experience, because we do have some Canadian plants. I think there are two parts to segregation. This is a rigid segregation, in a sense, but the biggest thing that came out of segregation that people aren't necessarily talking about is that the U.S. packers started to segregate Canadian cattle because of the COOL legislation. They found they weren't receiving the same value for their meat, because they could not export part of that meat to Korea. In Canada we do not have an ability to export to Korea, and the U.S. packers then identified a lack of revenue from the Canadian cattle. So sometimes we will confuse part of this discount that's attributed to segregation to not having the revenue.

This is the same problem we currently have in Canada with our fed cattle. We don't have access to the Korean market, and we've lived with this \$25 a head for many years. I think this was the first time the U.S. plants truly were able to identify that. The balance of it is in their segregation cost. There are efficiencies in plants. Like building a car or anything, it's all based on continuous flow, and every time you have to change that flow there's a big cost. So I think that's part of it.

We have seen some retailers in the States that have preferential programs, but that's not a major issue with this.

• (1135)

Mr. Francis Valeriote: I'll let the others around the committee pursue the issue of COOL further, but I have another question not related to COOL.

We've had a number of cattle producers come before the committee over the last couple of months. Some have complained about the captive market that has been created by companies like yours. You have your own feedlots you can rely on, which impacts negatively on the price normal producers get for their cattle.

I'm kind of inclined to say that maybe we need some regulations on what you can do as far as having your own feedlots goes, since they impact negatively on the price per head. I'd like you to give me a compelling reason why we shouldn't do that, given the impact it's having on cattle producers.

• (1140)

Mr. Brian Nilsson: My first thought is that if we actually had that type of legislation and saw its impact, we would find the impact to be extremely negative to the cattle producers. One of the things we learned very early on was that this industry is based on capital and

the amount of money in it, and when you remove capital you lower prices. It's our personal belief that there would be a very negative effect from that. Some producer groups maybe have not considered that.

On a personal level, my grandfather immigrated here in 1930. My father fed cattle. We've been in the business the whole time. He was a very small cattle feeder. My brother and I started out driving three-ton trucks and feeding 500 cattle when we were 16 years old.

Our system allows you to grow and develop. I struggle tremendously when I'm in the media or when people say I have a big company. I like to think of *Star Wars*, where they're in the ship being chased by a huge fish that's going to swallow their sub, and suddenly another fish chews that one up. There's always a bigger fish, and in my life I've learned that. There's always someone bigger and always someone smaller. Our goal has been to do the best we can for our customers, and we have been rewarded by having the size of company we have.

The Chair: Your time is up, Mr. Valeriote.

Mr. Bellavance, you have seven minutes.

[*Translation*]

Mr. André Bellavance: I would like to thank you all for your testimony.

Mr. Read, my first question is for you.

On April 15, I had an opportunity, with my leader, Mr. Gilles Duceppe, and the member for Drummond, Roger Pomerleau, to visit your facilities in St-Cyrille-de-Wendover, the Levinoff-Colbex slaughterhouse. On behalf of my leader and Mr. Pomerleau, I would like to congratulate you on the high calibre of your facilities. This was the first time that I had ever visited a cattle slaughterhouse. I had already visited a hog slaughterhouse; I believe that Mr. Laws was there. I'm going to make a pun, but I do not know how it will translate into English: holy cow, was I ever impressed. It was very interesting.

I would like to know where things stand with respect to your new facilities, your proposed \$19-million cutting room. We know that the federal government announced a \$50 million program over three years in order to improve slaughter capacity. We asked the minister many questions here, in the committee, and at the House of Commons. I know that, on your side, you are also working with Minister Ritz's office or with Minister Blackburn's office on this issue. On June 5, there was a government press release which repeated the announcement made in the last budget, but we still do not know what the criteria will be. We are starting to find out, because it has been repeated on numerous occasions that this will not be a subsidy but will instead be a loan.

I would like to know, obviously if you can share this information with us, if you have made any progress with this file. Have you had any confirmation from the minister's office about whether or not you will be eligible? Will this be a loan or a subsidy? Do you know the criteria to have access to this program? I would like you to provide us with a small summary of the situation.

[English]

Mr. Brian Read: I can catch up to date.

I guess I missed that in my opening statement. I apologize, I didn't catch the name of the person who was asking Mr. Nilsson the questions.

Now that you've toured our facility and you see the effort that goes into processing to get a pound of meat, I think it would be nice...and I make that offer to everybody in this room, because I think you're going to have time shortly to visit the Colbex-Levinoff facilities, so that you understand that we might not be that big boy trying to put the producers out of this country. Without them, we can't operate.

We've been living under that since BSE. I think it's time we realize and open our eyes up to this environment, that our capacity is disappearing. Maybe it's not important. And that's why building that fab room is critical to our competitiveness. We talked about global production. We want to compete. Do we want to compete globally? Maybe the globe is Canada, but this room has to decide. If that's the case, then we'd reduce this herd by 60% and we wouldn't have to worry about issues around the world; we'd only feed our country. We should decide what we want to do. To always be under the gun that we're trying to pick off the producer is completely wrong. We're trying to stay in business. We employ a lot of people.

To come back to your question, I thank you for visiting us. It's much appreciated.

We plan on moving forward with that. We think it's a necessity. The board is meeting today. We do have some guidelines, but they're vague guidelines on the money. I think the industry would be kind of naive to say we're upset that it's a loan. There will be some people in the room that maybe think it should be, when we thought it was a grant, so maybe we are disappointed there. Again, that decision is unfolding as we speak. We're only now getting the final cost to it, about how much it really is to put that building on with all the permits and the engineering costs, etc. But to maintain a good viable operation for the future, it should happen.

Does that answer your question, André?

• (1145)

[Translation]

Mr. André Bellavance: I would like to know whether or not you are confident and whether you have any information which indicates, at present, that you have had confirmation from the department that you will in fact be able to be eligible for the announced program.

Are you hopeful that the facilities will be set up soon? The agri-food sector in Quebec has been waiting for this facility for a very long time. I would like to know whether you could give us a picture of the situation today.

[English]

Mr. Brian Read: I don't have a black and white answer, to answer your question.

The answer is that we don't have clear direction yet from the government, so the answer today would be no. I mean, we are proceeding with the intent, but the actual answer would be no.

[Translation]

Mr. André Bellavance: For the information of the committee, I would like you to remind us of what this project is about exactly. It is a cutting room that will enable you to slaughter 4,000 steers. At present, these steers are slaughtered outside of Quebec. With this facility, you will have the capacity to do this in Quebec. I would like you to describe the exact scope of the project and what impact it will have on the sector's competitiveness, since this is the issue we are examining.

[English]

Mr. Brian Read: I guess you're looking for what we currently do. We currently slaughter in establishment 53, which is in Saint-Cyrville-De-Wendover, east of Drummondville. Then we transport the carcasses in quarters by truck to Montreal for fabbing. That process has been effective and efficient in the past. It has capacity for about 4,500 a week currently. That's the new hot boxes that were built through the BSE crisis, to maintain the quality of production and all the food safety interventions.

When you look downstream, where you have to be for tomorrow and your competitive advantage in the marketplace—because that's really what we do to try to solve niches to make a buck—we would look at relocating that fab operation directly off the kill floor and remove the cost of transportation. You're probably looking at an added-value program. I'll use the grinder as an example. We would increase capacity from 4,000 to 5,000 cattle per week in a five-day working period. We would probably look at fat cattle as well, the steer business. That would be like a phase two.

Job one is to make this operation efficient. In yesterday's world it was, but today it's not.

Thank you, André, for the questions.

The Chair: Thank you, Mr. Read.

We'll now move to Mr. Allen, for seven minutes.

• (1150)

Mr. Malcolm Allen (Welland, NDP): Thank you, Mr. Chair.

Thank you, gentlemen.

I was interested in a statement you made, Mr. Read, about a fundamental question that perhaps we should ask ourselves: what does this market look like? Does it look like a Canadian one? Does it look like a global one? How should we do that? I think that is the challenge, to be honest, and the real question we should ask ourselves. We should basically communicate that to the producers and to those of you in the processing end of the business so you know where you're at. Otherwise, we're asking you to shoot at a dartboard with perhaps no darts to throw.

Based on that, from your perspective, I hear you saying you're doing the things you believe you need to do to be competitive. But how do we solve the juxtaposition between the primary producer, who we've heard from in numerous cases and who's saying that if he is asked to produce more cows or if he simply has more cows, he's not making any more money, and the producers, who are kind of stuck between the consumer, if you will...? How do we manage to get a price point that actually satisfies the processors and the producers at the same time? How do we break through that logjam?

I understand that it's an extremely difficult question. I hate to challenge all of you with that, but somehow we need to get away from this idea that food should be cheap, to the point where the lowest person on the totem pole, which is always the producer, gets less and in some cases is going out of existence. As Mr. Nilsson said, the herd is reducing itself not because folks necessarily want to, but because they say they can't afford to keep it. It's just too expensive.

I realize that's a very broad statement, Mr. Read, but you did challenge us with a fundamental question. I think we need to hear from you what your thoughts are around those fundamental questions.

I'll start with Mr. Read and maybe work down to Mr. Nilsson.

Mr. Brian Read: I'd like to share this with Brian, if I could.

Mr. Malcolm Allen: Absolutely.

Mr. Brian Read: It's a broad question, but I've always been a believer in the fact that markets will find themselves without intervention. All I'm asking for is that we're on an equal playing field so we can evaluate without grey zones. The minute you throw grey zones into it, you start to distort the actual fundamentals of the market. We haven't put the dollar exchange in there, and let's not cloud your question with that, but I think markets do find themselves. I think they will. They always have.

But we need to make sure that we're kept at an even playing field. When you disadvantage either sector, that's when we come looking for interventions.

I'll turn the rest of it over to Brian.

Mr. Brian Nilsson: I would probably epitomize someone who believes in a free market. I think the cattle population, other than in the period of BSE when it was abnormally forced to increase, will find its level. We are firm believers that we are actually, over the next five or ten years, going to return to some very profitable periods for the producers.

One of the true tragedies of BSE was that it was in a period that would have been a good period for the Canadian producers. Because of BSE and the restrictions we had on meat exports and all that entailed, we had tough times.

In the long term, we believe we should be moving into better pricing as some of the liquidation moves forward. I'm a firm believer that the market does do this. There are market cycles. We had a disruption in this one, and that has caused tremendous harm for our producers, but those market cycles will dictate that prices recover. We're seeing a contraction in the cattle herd and I believe the long-term consequence of that will be improved pricing.

I think if we want to prejudge how many cattle we should have in the country, we're wrong. I think this is something that the collective of all the producers will decide in regard to how much they want to be in the business, and that is the proper judge of it.

Mr. Malcolm Allen: Thank you both.

It is a challenge, obviously, that we all will have to deal with when it comes to policy. My sense, in hearing from large and small producers, is that perhaps the policy will have to be somewhat encompassing in the sense that, as Mr. Read has pointed out, to

paraphrase your words, I'm not necessarily the biggest guy on the street. We need to have a policy that actually speaks to the fact that not everyone is the biggest guy on the street, and we find that with producers as well, so that will be a challenge.

Mr. Boyle, you mentioned COOL, and that is obviously a topic that all of us have been concerned with here. I think the position here is that we'd like to see it not be there. You may take that as a position, but I think what you were articulating earlier is that you don't necessarily see it going away. So if it's not going to go away, albeit we would love to see it go away, and challenges take a long time—no matter how good the challenge may be, they take an extensive period of time to work themselves through—how do you see your advocacy there in helping to minimize the repercussions on our producers here?

• (1155)

Mr. J. Patrick Boyle: Well, in some regard, I think we were partly successful in doing that through the statutory language that was passed by Congress and the regulation that USDA implemented. We were actively engaged in both of those processes. As burdensome and disruptive as COOL has been since it went into effect in September of last year, and then under a final regulation this past March, it could have been a lot worse. It could have been a lot more expensive. It could have been a lot more disruptive. It could have further reduced any incentive to import livestock from Canada and Mexico.

I made passing reference to two of the recommendations that Secretary Vilsack conveyed to me in a meeting back in March in Washington. Those would be examples of how a bad situation could be made worse. So under difficult circumstances, I think the resulting law on regulation was probably about as good as we could hope for.

The Chair: Thank you, Mr. Allen. Your time has expired.

I'll now move to Mr. Storseth for seven minutes.

Mr. Brian Storseth: Thank you very much, Mr. Chair, and I'd like to thank each one of you gentlemen for appearing before us today.

Mr. Laws, we've seen you so much in the last little while. I think people are starting to wonder if we're dating on the side.

Mr. Read, I think what we've seen here is an example of what can happen when you become frustrated at committee, and I want to make sure I give you an opportunity to address the issue in the way I think I hear from you that you would like the issue addressed. We have to make sure we're careful that your comments aren't taken out of context, because I'm sure you didn't get into this industry hoping to have a captive market and simply only have Canada to sell to and compete with people like XL only.

I do know we have you and Mr. Nilsson, who's from my area originally, here as examples of Canadian companies that can compete with the biggest and best in the world, if they're given the opportunity to compete on a level playing field, and that's one of our problems.

You brought up SRM removal. It is something that the industry did push on us when we did get up here, but not in the exact form that it has taken. I believe one of the problems that you would agree with on SRM removals—and probably around the table—is that we've gone much farther than the U.S. has gone. Even though they said they were going to catch up, the U.S. has yet to catch up. There are other examples of regulatory burden that we put on our producers and our processors that the United States doesn't have. Is this what you would see as one of the biggest factors in moving forward with the competitiveness of our industry?

Mr. Brian Read: I didn't mean to get frustrated with the group.

Yes, to answer your question, competition is good. Good competition is even better, and that's what we have in this country, whether it be for livestock in both Canada and the United States.... We see them as good competitors as well. We have a border that should move freely, that gets bumps and puts not protectionist but food safety issues in place, and that affects our industry. We just need an equal playing field, and that's all I'm asking for.

As I say, you probably have two people in this room who supported the current SRM policy but who realize we can't afford it.

Mr. Brian Storseth: Of course, in the United States it's not the producers or the processors that bear that cost; it's the taxpayers, as a whole, through the government, and I think that's something we have to seriously look at. I think that's the recommendations we need to draw out of your testimony and not any kind of talk about supply management to our cattle system, because that is not what my producers want and that's not what our processors want.

• (1200)

Mr. Brian Read: And I don't want that either, believe me.

We've worked hard over the last years. Brian has alluded to the three-ton truck. He and I have both had a long time in this meat industry. We enjoy growing. We've seen major growth in our industry and we sure don't want to go backwards, because we do what is right. That's really where it's got us.

Mr. Brian Storseth: Yes, absolutely.

Mr. Nilsson, I'd like to ask you a couple of questions.

First, just off the top of my head, in your comments it seems as though you're not necessarily anti-COOL—and I could be mistaken here. But do you think there have been some benefits for western Canada out of this COOL legislation?

Mr. Brian Nilsson: No. What I would say is that I, for sure, want to express that I do not support COOL. Absolutely, I would like it to go away.

One of the things I wanted to point out is that I think we are not having the consequences to western Canada that were initially perceived. A lot of that, again, is just because of the cattle population being smaller and being more aggressive in the packing side. So it was more that. But no, absolutely, removing COOL is one of the key objectives we would support.

I'd like to touch on what Patrick said about the initial letter that Secretary Vilsack sent out. That would be the bad side of COOL. That would affect meat sales. It would create burdens in the packing

industry in the United States. It would be very intense when you talk about segregation costs.

That enhanced COOL they've talked about would be really a bad thing. I'm saying we can work through our present form of COOL. Depending on where our cattle population settles out and where we are, you know, I firmly want to process all the cattle here, so then I think the U.S. packers should be irrelevant in this discussion.

Mr. Brian Storseth: There's one thing. Mr. Nilsson, as a successful businessman who is very aggressive, you're far too humble when you talk about your business and your successes.

One of the things I note about your company is that you've always been able to find the competitive advantages. As a country, I mean, one of the things I firmly believe—and our side firmly believes—is that we need to open up new markets to give ourselves more choices, to give our industry more choices. You talked about South Korea as being a key factor in some of the offal and other aspects of the product we sell. What are some of the changes or markets you foresee we should be going after, as a government, to help create that competitive advantage for the Canadian industry?

Mr. Brian Nilsson: Well, I believe right now we've started our WTO challenge with Korea. That's a very progressive step. I would say Korea is one of the markets that would have a definite help, if you want to say. It would increase pricing for all sectors of our industry. Currently, the United States is moving forward, as well as Canada, on trying to get under-30-month cattle into Japan. I believe that would be a positive move for us.

You will find, first and foremost, that as a company we are really strong believers in the Canadian domestic marketplace. I believe sometimes we think the export market is how we build an industry, but we're real believers that you need to be very strong domestically. Sometimes when we worry about the costs of SRM and some of these inequities, it's because we sit here and watch U.S. meat being shipped from a competitor in the United States into our domestic marketplace. That's what I want to counteract. I want to keep the cattle here. I want to make sure we service the Canadian market and we sell parts we really don't use.

The biggest bonus to the export market is selling for very good value all the parts that are not really usable here. It's that combination that creates the value that works for everybody.

Mr. Brian Storseth: The last question I'd like to ask both you and Mr. Read is a short one.

You both talked about the contraction of the herd size we have right now. Unfortunately, in many cases, that also means contraction of the number of farms we have. You also talk about how, when that happens, prices go up. That's the natural market side of things. I want to make sure we don't leave it at that.

After, as the prices go up, what's the next step? Do you think there will be an expansion of the herd size to a degree, as most market flows—not to give you the answer to your question, but just to not leave it that there's going to be a contraction and then that's the end of it and it's a negative story for our industry? Could you just take it the next step further, as to how you see it's going to go forward?

• (1205)

Mr. Brian Nilsson: I would go with trying to say that as we move into periods where hopefully we see better pricing, I would like to think that the herd expands again. It's an integral part of the industries I'm in to have that expansion, and that's what we're hoping for.

I do qualify that the United States has actually gone through a long period of relative profitability over the last 10 years in their producer group, and they have not had an expansion. One of the things we need to keep in mind is that the people pressure, especially in the United States, is starting to limit agriculture. Even though the desire for expansion might be there, we might not see the same expansion as the normal market signals would send. But I would absolutely hope for that.

The cattle industry in Canada has been through an incredible expansion. Sometimes we don't look at that. Since 1985 we've actually been on a 23-year expansion. I think we have to expect some contraction. During that time, the United States actually did not expand at all. I'm hoping for an expansion, but I do think it won't be quite as big as what the normal market signals. The best thing, or what I would like to see, is that the producers are making lots of money and they all want to be in the cattle business.

The Chair: Thank you very much. We'll have to move on.

Mr. Easter.

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

Thank you, folks, for coming. They were great presentations.

I want to talk about one of the big difficulties in the industry. Yes, we are seeing a massive selling off of breeding stock over the last 18 months, but one of the huge problems for producers at the producer level is that all costs seem to get back down to them. I mean, if you guys get costs, you're going to try to hold your margins, and it gets back down to them. That's a problem in terms of maintaining the industry.

I want to come back to you, Mr. Boyle. We met with quite a number of congresspeople when we were in...and I think there's COOL fatigue in Congress. They just wish it would go away, as Brian said as well. But we can't let it go away. We have to challenge them under the WTO.

There's a tremendous lack of understanding at the congressional level that this is the most integrated industry beyond auto, that there are supply chains both north and south of the border with established plant structures, etc. All that is jeopardized, I think, as a result of COOL, especially in the hog industry, where it's even worse.

Our dilemma, though, and it may be even more so in hogs, is that if we wait for the WTO, it will be five years. Not so much in beef, but in hogs, I believe, we're on the verge of losing 50% of our hog industry in this country if the government doesn't come through with

an ad hoc payment. That's the necessity. I know it's a potential trade challenge, but that's where we're at.

How do we handle it when there's a violation of trade, a non-tariff barrier, as you said, Mr. Boyle? Because it really is non-tariff.

We appreciate your support, by the way, at our meetings both there and here.

Do you have any suggestions on how we protect our producers in the meantime? Winning a challenge at the WTO is no damn good if 50% of our producers are gone.

I'll raise the other question as well, Mr. Chair, because I know I'll run out of time.

Is the SRM removal now allowed to be put in fertilizer in the United States? I don't know if anybody can answer that, but I think it is. Would there be a reaction, from your point of view, with the...?

I know why we got into this in the first place, but it's discounting our cattle, I guess, somewhere around \$30 to \$40. Perhaps you can give me the figures. Would there be a reaction from the OIE if we dropped our policy, do you think? Because I really think the government should. The Americans didn't follow suit as they were supposed to. What do you think the reaction internationally would be if we made that move, which I think we should do?

That's two or three questions.

• (1210)

Mr. J. Patrick Boyle: I'll start on the concept of COOL. It certainly exists. It's both a plus and a minus. It's a plus to the extent that proponents of COOL are dissatisfied with the current regulations and would like to reopen the law and try to get some of the items that Secretary Vilsack has expressed preference for. But it's a curse because the COOL opponents are suffering from the same fatigue and are tired of waging that battle.

This battle began, for the first time, in 1996 on the House agriculture committee. It's a subject with which those members, your colleagues in the United States, are very familiar. There's just a real hesitancy to reopen it in any substantive way.

Frankly, even without the history behind the issue, the law has only been in effect for less than a year. We began compliance on October 1 of last year. I think it's probably not unreasonable to anticipate that the congressional oversight committee would like to monitor compliance for a period of time before they consider revising the underlying statute, whether that would be to expand it or contract it.

In terms of your WTO complaint, you're absolutely right, it's a time-consuming, frustrating process. The Canadian beef industry has experienced it not once or twice but thrice in terms of the EU hormone ban. We succeeded, as you know, on each of those occasions. And that's the interesting question that will arise, assuming that Canada and Mexico succeed in challenging COOL at the WTO. What will the response of the U.S. Congress be? Will it be a European Union response, whereby they just accept the retaliatory tariffs and move on? Or will they look at the underlying statute and the disruptions it has caused and correct the matter according to our international trade obligations?

We may not have a point to re-engage on COOL until that WTO process is completed.

The Chair: Thank you.

Does anybody else want to respond to the question?

Mr. Read.

Hon. Wayne Easter: Just speak on SRM.

Mr. Brian Read: We brought up at our last beef round table possibly stepping down from the OIE. That didn't get any traction at all. I think that question should probably be given to Dr. Brian Evans to see what the retaliation or the dark side would be. It's hard to see the dark side from where we're at.

At far as fertilizer goes, we asked that question. There appear to be some really long studies. I'm trying to think of the word you use when you put your garbage in a can and you let it rot and then you dispose of it. What's the word?

A voice: Composting.

Mr. Brian Read: Composting. These are two-year studies, and that's what prompted us to say that maybe we should reverse this thing, but there was no support at the round table to do that, Mr. Easter.

The Chair: Okay, thank you very much.

I'll move to Mr. Lemieux for five minutes.

Mr. Pierre Lemieux: Thank you very much, Chair.

When we were down in the United States, we got two messages. This is one of the reasons we're having the meeting today.

One of the messages we had been receiving before we went down to Washington was that the implementation of COOL and the additional letter asking for voluntary compliance had thrown the U. S. slaughterhouses into confusion. They were trying to implement it. There was some sort of cost being borne by them, and this was showing up in lower prices being paid for cattle.

When we got down there, we asked these very questions, and the answer we got down there was that no, for the most part, the slaughterhouses have made a unilateral decision that they're not applying the voluntary.... There's no confusion here. Yes, they will comply with COOL, because that's the law. But this voluntary letter has thrown confusion in, because there has been a decision made that they're not applying it, period. That sort of conflicted with everything we had heard previously, which was that it was the confusion that was impacting our cattle farmers.

I want to go at this from a certain angle. We all appreciate the slaughterhouse capacity here in Canada. You were just talking about there being a contraction of the herd right now. A while ago there was a contraction of slaughterhouse capacity in Canada. And it's not just a short-term thing; you live with the consequences of that for a very long time, and we're living with them now.

I have a concern that if there's a contraction of the herd, a significant contraction, this will have long-term consequences as well. That's why we're trying to put our finger on why it is that the price has dropped so much for cattle. What can answer this?

I want to try to understand the model. For example, if the price goes down in the U.S., it goes down in Canada too. When you have your final products, do you still sell those into the United States? Are you selling processed, packaged meats to restaurants, hotels, and customers in the United States?

My adjoining question would be whether the price you're receiving for those products is roughly the same as it was pre-COOL.

• (1215)

Mr. Brian Read: I'm going to give you an overview.

What you have to keep in mind, and what you're probably losing sight of, is the dollar. We trade in the United States, and we trade on the U.S. market. That's what drives the Canadian market. Whether it be livestock or meat, the dollar will affect it big-time. Pre-BSE, I think we were dealing with a 45¢ dollar. Last summer, don't quote me on the time, we were at par. It made it difficult to manufacture anything in this country. This creates a big impact on our business. I'll leave it there, because the rest should be to scale.

Mr. Pierre Lemieux: I think it's a contributing factor, but I don't think anyone here is convinced that it's *the* factor. That would be easy to tag—we could accurately calculate prices in relation to the dollar. It's a factor, I don't argue that. That it's *the* factor, I'm not so convinced.

Mr. Brian Read: If you have a free market, it's a factor.

Mr. Pierre Lemieux: It is, I agree.

Mr. Brian Read: Don't lose sight of it; that's all I'm saying.

Mr. Pierre Lemieux: No, and I thank you for that. But I think there's more. I'm trying to find out what more there is to this.

Mr. Brian Nilsson: I'd like to see the report that says the prices have dropped to the extent that you're talking about. Actually, this spring the prices were higher than they had been previously. Through a big period from late last fall and on, prices were higher. We've had higher prices on cull cattle going into last fall and last summer.

Part of the reason we're seeing such a large liquidation is that the value is higher for the cull cattle, so that they're actually getting more money and they're wanting to ship more. I was at a beef value chain this spring, and the chairman of the Alberta Beef Producers came in and said, "Well, thank you, Brian." I said, "Well, goodness me, that has to be a first when the chairman from the beef producers says thank you to a factory. What do I owe that honour to?" He said he had just shipped his cows to market and gotten \$900 for one. I told him he should thank me if he got that much.

The truth is that we aren't seeing a dramatic decline in pricing. I don't see the decline.

Mr. Pierre Lemieux: But we're hearing that there is a decline. Cattle producers are telling us that they're making less per head than they were before. This is causing significant problems.

Mr. Brian Nilsson: I just don't see that. In general, I will not disagree that the market is still not up to a level that would make it very profitable for producers. The underlying issue that we face, all of us, is trying to maintain the livestock industry. We're part of that. We're in the production part, we have feedlots, we have ranches, and we have auction marts and packing plants. My commitment is to the Canadian industry, and I need to have an industry. There is no bonus for me in poor prices. I think sometimes we confuse the overall market and the profitability of the industry with other factors. If we had the large cow herd we had two years ago, I think COOL would have a more pronounced effect. But I think right now it's having less effect than was perceived.

• (1220)

The Chair: Madame Bonsant.

[Translation]

Ms. France Bonsant (Compton—Stanstead, BQ): I'm trying to understand the Americans' logic with respect to COOL. You and Mr. Read have slaughterhouses on the American side.

Is this so that you can deal with the surplus of beef which already exists in the United States? Did the Americans think that, by adopting the COOL system, they could prevent surplus beef from Canada going to your slaughterhouses on the American side?

[English]

Mr. Brian Nilsson: COOL was brought forward from a splinter group within the United States that believed they could create a premium for U.S. meat by identifying our meat as Canadian. Right now these people are frustrated because they're not seeing this premium, so they're saying it needs to be more stringent. You have to remember, the proponents of this bill in the United States would actually like to close the border. They're just looking for ways to do that.

[Translation]

Ms. France Bonsant: Let's talk about the difference between food safety in our slaughterhouses and that in American slaughterhouses. The regulations must not be the same. It is impossible to have had mad cow disease, BSE, in Canada, without it ever showing up in the United States. I find that difficult to believe.

We have a signed agreement with respect to organic food producers. I find it difficult to believe that, in the United States, there are certified organic animals if the inspectors do not follow the same quality or meat inspection standards as those used in Quebec. I am not aware of the standards that apply elsewhere.

How can Canadian farmers compete with the Americans when the food safety standards are not the same? I really do not have confidence in the organic beef purchased in the United States.

What do you think of that?

[English]

Mr. Brian Read: I'll start.

The two countries have an agreement, an equivalent system. I believe we do. I think we can probably poke holes in each other forever, but at the end of the day it's imperative that we... That's what we're asking for on the SRM regulation, that we're equal too. We can't be disadvantaged; neither country can be disadvantaged.

I'm a believer. I don't know why we send our inspection staff there to audit and why they send them here. We have HACCP, I think we should recognize. And if we do have negotiations, it should be between Washington and Ottawa.

That's my opinion.

Mr. J. Patrick Boyle: As Brian Read said, we do have equivalent systems. They're not identical, but our governments recognize them as equivalent for purposes of facilitating trade. Both the Canadian Meat Council and the American Meat Institute are very strong proponents of harmonizing the systems more precisely so they become more identical.

For example, Mr. Read mentioned E. coli testing on imported products. FSIS conducts those kinds of tests at the border. From our point of view, FSIS should be in a position to acknowledge the results of CFIA conducted in the plants because that's more efficient. Conversely, that should be the application to U.S. exports as well.

[Translation]

Ms. France Bonsant: Do you wish to speak, Mr. Nilsson?

[English]

Mr. Brian Nilsson: I was just going to say that I think what you are seeing is that there is a debate between the two countries on the organic recognition standard. I think that is more of an entrepreneurial...or how would you call it, Patrick? One saying they have an organic standard and you don't. I think that's more from the corporate company recognition standard than the actual inspection systems. The inspection systems are very harmonized.

• (1225)

[Translation]

Ms. France Bonsant: In my riding, nearly 60% of the people are farmers. I went into politics in 2004. I am not a farmer by training, but I have seen my friends just about commit suicide because of the mad cow disease and everything that occurred. So I said to myself that if I could do something, I would.

I am familiar with Quebec's regulations and I have learned a great deal about agriculture. I put on my boots and bluejeans and I went and saw what was going on. I wondered why, during the days of the mad cow disease crisis, everybody in Canada was being penalized. From what I could see, mad cow disease does not float on the water in Prince Edward Island or in Newfoundland and Labrador—or our Quebec requirements...

Why are you saying that the food safety is similar when in fact it is not? It is probably more stringent in Quebec than elsewhere. I find this difficult to understand. I have seen Californian carrots with salmonella. So I am very afraid of beef with added hormones winding up here when in fact this does not exist in Quebec.

If you can convince me of the opposite, I am all ears.

[English]

The Chair: Do you have a question, Ms. Bonsant?

[Translation]

Ms. France Bonsant: In the United States, do the food safety inspectors and veterinarians work for the government or for a private corporation?

[English]

Mr. Brian Read: I'll have to apologize for the three of us sitting here. Jim of course is the executive director of the Canadian Meat Council, but we do meet nationally with CFIA. We meet in Alberta, Quebec, and Ontario. We're looking to achieve harmonization across the country. I'm one of those believers that our food safety system we have in Canada is a world leader.

The Chair: Thank you very much.

Ms. Bonsant, as a farmer from Ontario, I take a little bit of exception to your saying that food inspection in Quebec is more stringent than it is in other parts of the country. I think that it's very equal. Federal inspection obviously is the same right across the country, but I know that Ontario and quite possibly Quebec certainly rank very close to the federal inspection as well.

Mr. Brian Storseth: You're always leaving Alberta out.

The Chair: No, I'm not. I'm not leaving Alberta out.

We now go to Mr. Shipley, for five minutes.

Mr. Bev Shipley: Thank you.

Thank you, witnesses, for being here. I particularly thank Mr. Boyle for coming over and being part of our study of the competitiveness of Canadian agriculture.

Mr. Boyle, Mr. Nilsson talked about the groups in terms of the impact that they've had on the COOL legislation that came forward to be more restrictive. Could you be a little more descriptive on who those groups were, please?

It's for the record. We likely have an idea, but it's for the record. In Canada some others were involved during the BSE period with a particular group. I myself was not, but I was wondering if you might identify them to help us out, please.

Mr. J. Patrick Boyle: Three groups are the leading proponents of COOL in the United States. One would be a group called R-CALF. A second group is the U.S. Cattlemen's Association. The third is a national group, the National Farmers Union.

Mr. Bev Shipley: Okay.

I think it also reflects the impact to Canadians, and I've listened to Mr. Nilsson, but is COOL seen to be the largest impediment or barrier towards viability in the United States, in terms of profit for the industry?

Mr. J. Patrick Boyle: It has certainly imposed an enormous cost on the industry, and I outlined that in my opening remarks, but frankly speaking, those costs are absorbed. They're dispersed. The market responds.

In the packing sector, in the middle, we try to operate on margins, at some times more successfully and profitably than at others. We're a margin maker, so when those costs are dispersed, some of them are absorbed in our operations and some are reflected in lower prices for livestock. To an extent, we have the leverage, rarely, of higher prices in wholesale beef and wholesale pork products.

It's an enormous impact. It's a cost that we don't think has any benefit and that should not have been imposed, but it has been absorbed within the system.

● (1230)

Mr. Bev Shipley: I don't know if it's the same in the United States as it is here, but usually the majority of that absorption ends up down at the primary producer, because it can't go any further down the line. Is it the same scenario?

Mr. J. Patrick Boyle: I did make reference to the difficult leverage in dealing with large retailers in the United States when it comes to pricing.

Mr. Bev Shipley: Mr. Nilsson, I appreciate your comments. I also come from an agriculture background. You're someone who has gone through from the beginning and you know what it's like to start out young, work hard, work up through the system, and be successful. I think it's a tribute not only to you but to your family and your country. I learned that earlier, actually, with some business not too far from us in my riding. It's always interesting to know the background.

You talked about being able to be competitive because of your efficiencies. You've bought out Lakeside and you've been able to compete. A major factor in your competitiveness may be internal efficiencies in terms of technology, but is continuous flow of livestock, a product going through your lines, one of the main things that makes you competitive?

I'll ask the same to Mr. Read.

Mr. Brian Nilsson: I could point out that in our purchase of Lakeside, one of the things that helped was that we knocked the administration costs at the corporate office in the United States by about 80%, because I don't really think I'm worth that much, so we don't charge that much to our plant. We did that to start with.

In terms of the supply chain, we try to work really hard with our own production and with producer alliance groups. The Canada Gold Beef initiative is a producer alliance in Alberta, and we process their cattle for them. Having those producer alliances is a big part of it. Those types of supply chains are very much part of making a plant efficient.

We spend a lot of time trying to make sure we have an efficient plant, because we understand that it's how efficient the plant is that determines how much we can pay for the livestock, and that's what keeps them from going to the United States.

Mr. Bev Shipley: I have a quick question before I run out. You can both answer. When you talk about the reduction of the herd, the number of cattle, is that going to allow you to still be sustainable and viable as an industry, in terms of the processing?

Mr. Brian Nilsson: At this point, if it sounds like we have a mission that we believe the livestock need to stay here, it's to sustain our industry. That is part of what we're trying to do. We're trying to make sure, because there is a danger that our industry contracts to a level where we then lose packing capacity in Canada, so we'd lose it and it would never come back. As a Canadian company, the thing we absolutely wouldn't want to see...and that was part of our decision to purchase Lakeside; we were concerned that the facility might close. I can tell you that then all of a sudden the cattle do go the United States, and they ship the meat back here. It would be a travesty, as Canadians, to think that we would have to have a meat production system in the United States.

SRM has been an issue for us in the mature cows. That's one of the things that have pushed hard on us, because we can't compete on that particular thing. The rest I very much like to believe I can be competitive in. There will be enough cattle that we can run our industry on.

The Chair: Thank you very much.

Mr. Eyking.

Hon. Mark Eyking (Sydney—Victoria, Lib.): Thank you, Mr. Chair.

Thank you to the witnesses for coming here today.

I don't know if any of you are familiar with the situation with the beef industry in Atlantic Canada. It's not a big industry when you compare it to the one in western North America, but it's very important. We have one killing plant. It's a small one. It's very modern, but it's small. Most of our producers are under 100 head. They're grass-fed, and they don't use antibiotics, and they don't use hormones. But the situation is that there are only a couple of chain stores in Atlantic Canada, and they purchase through you people, I guess, on a national purchasing program and things like that.

I have two questions, because you guys know the industry and where it's going and how it's evolving.

My first question is probably to the two Brians. Is there a way for that industry to survive? Could your companies sell a different type of product in a niche market? I know people will debate that all beef is the same, but could you sell it to certain stores or restaurants as that type of beef that's free-range, grass-fed, and hormone-free? Could that be in your product line? Would that be a way of that industry surviving?

• (1235)

Mr. Brian Read: One of the issues you have is supply. You spend a lot of money on marketing a specific, and when you do get it into a major chain, you won't have enough meat to satisfy it. All of a sudden, you're going to fall short. You only fall short one week, and they'll delist it. This is the risk of that.

It's a niche market. You need to find a variety store type of environment. If you go to the majors, you need to meet their demands, for the cost of not meeting them is something we don't want to talk about. That's the downside to it. It's to grow it and spend money on marketing and then not have the supply to sustain it. We've seen that. We looked at hormone-free at the Colbex plant. I think if you go through the criteria of hormone-free and organic under that term, I think we're up to about three head a week that would qualify. We can't do much with it.

Hon. Mark Eyking: Is the demand not there for a consumer going into a store or a restaurant in Vancouver? Is there a niche there that could be filled for more than three head a day or a week?

Mr. Brian Read: That's all that's available from a supply standpoint.

Hon. Mark Eyking: I see. That's available.

Mr. Brian Read: It's all that's available that would meet this specific.... Is there a demand? There is, but you need the supply to meet it.

That's the key.

Hon. Mark Eyking: So the key would be for the producers in that region and that plant to have a certain continuous supply of that type of product. Could they get a premium price for it?

Mr. Brian Read: You'd have to do some studies on it. I'd be guessing. I would say yes, but that's just off the cuff. Again, supply is critical.

Hon. Mark Eyking: Did you have something, James?

Mr. James M. Laws: No, not specifically. But from what I recall, didn't the production out of that plant maybe represent about 16% of the total Atlantic consumption? I would think they should be able to do a really good marketing campaign and succeed, but again, that's just my personal comment.

Mr. Brian Nilsson: The very first packing plant we bought processed 130 cattle a day. Currently we process 5,000 a day here in Canada. The hardest part for us to learn was that we couldn't compete with the bigger plants. The cost structure from a small plant is so much higher that they have to develop a very targeted niche to be able to survive.

So I think there's a multitude of issues that would have to be looked at. In all honesty, for the livestock producers, they probably see better returns to ship their cattle to the U.S., or from that district, and that should be their prerogative. They shouldn't have to only sell locally. You have to weigh all these consequences when you try to decide whether a facility will work or won't work.

The cost of running a small facility is really tough. I know when we were in that small facility, we looked at the big guys and we thought, how could this be? How can they be running Saturday and I'm not making money? Yet when we moved into XL at 1,000 a day, I started to see that. They were profitable and we were not.

The Chair: Thank you.

I'll go to Mr. Hoback, for five minutes.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Chair.

Gentlemen, again thank you for coming down. I'll be fairly quick in my questions here.

One comment I want to get on the record is that it was really interesting being down in Washington and I really commend members of this committee—Mr. Bellavance, Mr. Easter, and Mr. Lemieux—on how they did such a good job defending Canada and how they stood up for our producers and how we worked as a team in actually addressing our concerns and issues.

Mr. Boyle, I'd like you to confirm the impact on U.S. feedlots by not having Canadian cattle. Do you have any insight on the number of volume of cattle heading down to the feedlots and whether their feedlots are full or not?

•(1240)

Mr. J. Patrick Boyle: We've spent a lot of time talking about decreased value or not a decrease in value, but there certainly has been a decrease in volume, particularly from Canadian hog imports, both the feeder pigs and direct for slaughter. There has been a significant decrease in Mexican feeder cattle coming into the Texas feedlots and I think, to a somewhat lesser extent, a decrease in Canadian feeder cattle coming into our northern tier feedlots.

Mr. Randy Hoback: Again, that would have an impact on the packers and the amount of cattle they're getting from the feedlots. Is that correct?

Mr. J. Patrick Boyle: Yes, it would. As Brian has mentioned on a number of occasions today, the Canadian herd is at a relatively low level, and so too is the U.S. herd. We've been running at 95 million to 100 million, going back over decades. We're at about 90 million right now. There is going to be increased competition for a stable, if not dwindling amount of cattle in the United States. We've all seen that movie before, when packing capacity competes for a smaller amount of livestock. The producers do enter into that part of the cycle, and the packers have trouble making margins.

Mr. Randy Hoback: But is there not a threat that the protein will come from offshore, non-North American protein?

Mr. J. Patrick Boyle: Yes, absolutely.

Mr. Randy Hoback: Isn't that a threat to the packers, that they'll shut right down? They'll say they can't compete, and instead of North American beef and hogs, we'll see Argentinian, Brazilian, Australian...?

Mr. J. Patrick Boyle: You're absolutely right. Historically, prior to BSE, the U.S. was the largest beef exporter in the world. Canada was still struggling to recover from that incident six years ago. But conversely, we've historically been the largest beef importer as well. We're a large pork exporter and a large pork importer.

That's why the members that I have the honour of representing at AMI allow me to expound upon my own personal free trade philosophy, because it's their business philosophy as well.

Mr. Randy Hoback: Mr. Nilsson, there are all sorts of questions in Saskatchewan, and I come from Saskatchewan. I think it's a good chance for you to get some answers on the record here.

Why did you shut down Moose Jaw?

Mr. Brian Nilsson: For the most part, the SRM policy was probably the major issue. That's about a \$30 burden right now. I wish to say that our intention is to open the plant in the fall. We did the layoff with a recall notice to the workers for September.

Normally what would happen is that we would go into a loss position through the summer and we would push out those American packers that are buying the cattle in Manitoba and parts of Saskatchewan, and we would sustain a loss. The problem this year with the SRM policy that we're having to live with is that the loss was so huge we had to make this decision. I wish to say that was the hardest decision my brother and I have ever made. That is simply not our way. We are people who believe that you go in and you run better than everyone else.

Mr. Randy Hoback: One of the other concerns that have been raised around this committee is packer-owned cattle, that somehow

you've got the ability to bring in your packer-owned cattle and manipulate the price. I'm curious, what percentage of the animals you slaughter do you own?

Mr. Brian Nilsson: This would be a number that I think would probably shock everyone; it ends up being about 12% of our total production. It varies, maybe between 6% and 14%, depending on the time of year and things like that.

To be quite honest with you, over the last five years and with the turmoil of BSE, I would just as soon not own any some days, because we have probably sustained losses greater than anyone in this industry. But we firmly believe in two things. First, we believe we have to be part of that industry. We're not only a key part of, as I said, the capital that is in there for the producers to sell their cattle to; they need buyers. I think sometimes some of the people who talk about captive supply really want to see that the packers aren't there, because they want one fewer bidder on the producers' cattle. I do not believe that. I want to see the packers in there. I see the consequence of the packer capital being in the industry.

As I said, a plant is a huge machine, and you'd need some.... In Lakeside we start in the morning with maybe 200. We're going to do 4,000 cattle that day, and the first 200 come from our feedlot; and that's because they come across the road, they're dependable, and they're going to be there when we start that plant. If I'm hauling them 100 miles and there's a snowstorm and that plant doesn't start up at that time, I lose \$50,000.

So a lot of it is to try to be competitive.

•(1245)

Mr. Randy Hoback: I have one more question.

The Chair: If it's a follow-up, very briefly.

Mr. Randy Hoback: Yes, it relates to what I'm saying.

You own a lot of auction markets also, but you buy cattle from other auction markets, is that true?

Mr. Brian Nilsson: I buy from everyone.

Mr. Randy Hoback: Okay.

Thank you, Chair.

The Chair: Thank you very much.

Now we'll move to Mr. Richards, for five minutes.

Mr. Blake Richards (Wild Rose, CPC): I'd like to talk about a couple of issues. One, of course, is one of the issues we've all been wanting to talk about, not just today but for quite a while now, and that's COOL, which is an acronym for something that isn't very cool.

But I'd like to start with something I think is tied to that, which is the work our government has been doing to open up market access for our farmers to other markets. The reason I say I think that's tied is, certainly, I believe we need to reduce our dependency on one particular market. Things like COOL, things like BSE, show us why that might be. In our work during this session, we've had a steady stream of farmers, farm groups, and other experts coming through who are telling us they're very supportive of our government's work in terms of opening up market access to ensure we have other markets and especially large markets. Of course, we've done a lot of good work in that area and we're continuing to work hard at that. It's a big focus of our government.

I'm wanting to get a sense from the three Canadians here whether you would agree with those efforts we've made, the focus our government has put on that, and maybe tell us a little bit why or why not.

Mr. Brian Nilsson: Do you want me to start?

Mr. Brian Read: Minister Ritz was at our last beef round table, and we complimented him on making his global tours and so on, so we do appreciate all those efforts. It does return to us.

The issue we have—and again, we'll come back to it—is that market access is great, but we still have one major competitor. It happens to be our major customer, but it also is a major competitor, and if we're not equivalent in our regulations—equivalent is the right word—you open up a market. It's pretty hard to compete with our major competitor, and that's the dilemma we're getting into as we speak.

I believe this herd will rebound and I think there's a future in this business, but we need somebody to go up that flagpole in a hurry. That's my comment, and I do appreciate all the efforts.

Mr. Blake Richards: Thank you.

Do any of you other gentlemen have a comment on that?

Mr. Brian Nilsson: Just quickly, there has been a tremendous amount of work done on reopening markets after BSE, and the government has been very strong on that. The new trade secretariat has been a response to a call by the industry to do that, and we hope it will be a successful step to try to open more markets.

Again, it's getting to be less of an issue. As our herd has contracted, the domestic market plays more of a role in price discovery in this country. But the export market is the part of the marketplace that brings extra value for the parts of the market that are not really saleable here.

Mr. James M. Laws: Just to add to that, we're very pleased that the government has hired Fred Gorrell to head up that agriculture market access secretariat. We worked with Fred down in Washington while he was there for the last three years, or whatever. He has been back for about a year now. He's a very good fellow, and we're really pleased he got that position.

Mr. Blake Richards: Great, I appreciate that.

Now, of course, I want to give a chance to our American friend here as well, because I want to talk a bit about COOL and some of its effects.

Certainly, I want to let you know as well that we do understand that you are our best friend and biggest trading partner, and we want it to stay that way. But I wanted to talk a little bit about some of the effects—and maybe I'll get a comment from both the Canadian perspective and American perspective—that you've seen in your operations and profits, and then, of course, on some of the prices received by producers for their livestock under the COOL regime.

I'm just trying to get a comparison here. Maybe you could give me a bit of a quick synopsis of the effects it has had on your operations on both sides of the border.

• (1250)

Mr. J. Patrick Boyle: Thank you very much.

I've been struck by some of the comments by certain producers in Canada that it's costing them x dollars a head, whereas you get feedback from some of the COOL proponents in Washington that it's not the case. As usually turns out to be the case, I think the truth is somewhere in the middle.

There are a lot of variables that go into price discovery, particularly imported livestock price discovery. The exchange rates are one we've talked about. Another is freight costs, depending upon the distance you bring livestock in from a foreign country. There are also quality and yield, which apply to all cattle and hogs we process in the United States, regardless of origin.

But post-COOL, there are other variables that come into play, including the segregation costs we referred to, and any diminution or devaluation in the wholesale price of that commodity, depending upon its origin.

Retailers want one consistent label; they don't want to manage multiple-origin labels in their retail grocery stores. That's because most of the beef and a fair amount of fresh pork today is still shipped to them in primals and subprimals. It's cut and traded and wrapped in the backroom, and if they're not getting one consistent U.S.-labelled product day after day, then they have to start segregating it as well. They have to start managing their inventory, just as we have to manage it at the packing level.

So there have been instances where large packers have decided they're going to use only U.S. beef in their premium product lines, because they can get a good return from their retail customers, not just because of the quality of the product but also because of the uniformity of the label, the ease with which they can manage their retail meat case. To the extent that is not particularly attractive to a product that's labelled "Product of U.S. and Canada" or "Product of the U.S. and Mexico" from a retailer's perspective, there is a diminution in the wholesale value.

So all of those normal historical variables and the two post-COOL variables go into the value of the livestock that we purchase.

I'm not an economist, but economics 101 will suggest that there would be some downward pressure on the livestock price related to imported animals, because of those two added variables.

The Chair: Thanks, gentlemen.

Just as a follow-up, you've heard a bit of discussion about our visit to Washington. We have been hearing, as committee members—and not just from some of our own industry people, but certainly from some people in the U.S.—that there's displeasure in the United States with COOL among a lot of people in the industry, and the slaughter industry, with the exception of the odd group, such as R-CALF and what have you.

Could any or all of you comment on that? Are you hearing those same comments? I know, Mr. Nilsson, you were saying that COOL has had an effect, but it's maybe not as bad as it could be, if I interpreted you correctly.

But are all of you, or any of you, hearing the same types of comments we're hearing?

Mr. J. Patrick Boyle: On behalf of the packers I represent in the United States, I will say they are dissatisfied with the regulation; they're opposed to the mandate. They invested a lot of resources, through their own companies' efforts as well as through the American Meat Institute, to try to oppose and then eventually delay for many years the implementation of the mandate. But at the end of the day, if you want to run your business you have to comply with the regulations, and that has been the focus for the last 12 or 18 months, trying to comply in a way that's most cost-effective for your operation and being consistent with what's required of you.

The Chair: Okay, thank you.

Mr. Read.

Mr. Brian Read: Just to follow up with Mr. Boyle, I believe that if our country were running at capacity and our herd were normalized—and we're into that rebuild, hopefully—this issue might be bigger than it is today. It's because we're running at such a low volume today that we're not really feeling it. In Ontario we have country-of-origin labelling at the retail counters, but that doesn't stop them from bringing the product up, which they do. They bring it up and they label it accordingly: "Product of U.S.," or "Product of Canada". In the United States the major retailers are saying, as Mr. Boyle alluded to, that they want just one label.

So I believe that if we were going full tilt we might be here telling a little different story. But we're kind of rationalizing our packing industry as we speak, letting people go and making us more efficient, etc. I'm not sure it wouldn't be a bigger issue if we were normalized. So I support the effort of this government on its challenges.

Mr. Chair, if we can move along quickly...and I think Mr. Easter brought up the timeline and how long this could take. Somehow we should get it on the fast track, because as I alluded to, I believe we're in the bottom of our supply and we're on our way back up, so we have to prepare for that growth again.

• (1255)

The Chair: To follow up on my question, Mr. Boyle, you pointed out that the slaughter facilities you represent, or the packing industry, are showing their displeasure with it. Are you hearing the same thing coming out of the grassroots producers as a whole? Can you comment on that at all?

Mr. J. Patrick Boyle: Not yet, although I suspect it might be somewhat inevitable to the extent that they are not going to realize the price premium in the marketplace, at least not at the magnitude

they had hoped for. Ninety per cent of the beef we market in the United States is U.S.-origin beef. It's hard to develop a premium price point for what is basically a commodity. The converse is happening. There is a downward pressure on the non-U.S.-only sourced raw materials. But there is not the premium they had hoped to receive, and that at some point may prompt them to revisit and perhaps express buyer's remorse.

The Chair: Mr. Nilsson, you're also a producer. Are you hearing anything from your producing counterparts in the U.S. in terms of this?

Mr. Brian Nilsson: I think Patrick touched on it. There is a real feeling that there hasn't been a premium. That's what they anticipated would happen, and I think there is a great deal of disappointment in how that has turned out. I think there's even a disappointment in the sense that the actual discount that is happening in Canada isn't as severe as they wanted. Again, their initiative is to block us from being in that marketplace, so we have to always remember what the end game is that they would believe appropriate.

I believe that in the long term we will actually move to a position where some of the Canadian product will develop recognition as a premium product. It's interesting that Patrick says they're 90% and we're 10%. They're forcing us to identify that 10%. We've always been Canadian meat. The meat from our plant in Alberta was labelled every day. There has always been a country of origin in the sense that it was Canadian meat. It didn't have to be labelled at the counter. But as that consumer sees Canadian product in certain retail sectors, maybe we will develop that brand that we keep talking about.

The Chair: Thank you very much, gentlemen. It has been great having you here.

We're out of time, but thanks again for coming at short notice. We wish you all well in the business. We'll probably see you back here at some point.

Hon. Mark Eyking: Mr. Chair, I have a point of order.

The Chair: On a point of order, Mr. Eyking.

Hon. Mark Eyking: Mr. Chair, 60 years ago on this weekend a noisy boy was born in a potato patch in P.E.I. Now, it's not easy, Mr. Chair, to turn 60, but our member has done it in style. I think, for the record, we should congratulate the member for Malpeque on turning 60.

Some hon. members: Oh, oh!

The Chair: He'll be collecting that little brown envelope now.

Some hon. members: Oh, oh!

The Chair: Before we adjourn, this is our last meeting, and I would like to thank all of the committee members and the staff, of course, for your indulgence. We have had a lot of work. As I mentioned earlier, we tabled our subcommittee report, which a number of us were on, and that part is done. There's an old saying that a farmer's work is never done; well, the agriculture committee's work is never done either.

Thanks for your indulgence—for most of the time—and I hope everybody has a good summer.

The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

**Also available on the Parliament of Canada Web Site at the following address:
Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante :
<http://www.parl.gc.ca>**

The Speaker of the House hereby grants permission to reproduce this document, in whole or in part, for use in schools and for other purposes such as private study, research, criticism, review or newspaper summary. Any commercial or other use or reproduction of this publication requires the express prior written authorization of the Speaker of the House of Commons.

Le Président de la Chambre des communes accorde, par la présente, l'autorisation de reproduire la totalité ou une partie de ce document à des fins éducatives et à des fins d'étude privée, de recherche, de critique, de compte rendu ou en vue d'en préparer un résumé de journal. Toute reproduction de ce document à des fins commerciales ou autres nécessite l'obtention au préalable d'une autorisation écrite du Président.