



House of Commons
CANADA

Standing Committee on Aboriginal Affairs and Northern Development

AANO • NUMBER 033 • 3rd SESSION • 40th PARLIAMENT

EVIDENCE

Wednesday, November 3, 2010

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Chair

Mr. Bruce Stanton

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• (1530)

[Translation]

The Chair (Mr. Bruce Stanton (Simcoe North, CPC)): Good afternoon honorable members. I welcome the witnesses and guests. This is the 33rd meeting of the Standing Committee for Aboriginal Affairs and Northern Development.

Pursuant to Standing Order 108(2) and the agenda, we are going to proceed with the study on Nutrition North Canada. This afternoon, I am pleased to welcome our five witnesses. I invite Mr. Andy Morrison, Chief Executive Officer of Arctic Co-operatives Limited, to give his presentation as our first witness.

[English]

Before we get under way, I will say that we have allowed about five minutes for each of your presentations. If you are reading from a written presentation, it is good to keep the pace fairly modest, more or less the way I'm speaking right now. It helps for the simultaneous translation that is available to the members, and to the guests we have in the room, as well.

Take your time. We'll get through each of the presentations. After that, we will go to questions from members. They have a certain time allotted, and we'll tell you more about that when the time comes.

I see that most of you have the audio in. You'll be needing that through the course of the meeting as well

Let's go to Mr. Morrison. You have five minutes, sir.

Mr. Andy Morrison (Chief Executive Officer, Arctic Co-operatives Limited): Good afternoon, Mr. Chairman, and members of the standing committee. Thank you for the opportunity to speak to you today.

My name is Andy Morrison, and I am the chief executive officer of Arctic Co-operatives Limited. Arctic Co-ops is a service federation that's owned and controlled by 31 community-based cooperatives located across the Northwest Territories and Nunavut. These 31 multi-purpose cooperatives are owned and controlled by more than 20,000 individual owner-members in the north.

The co-ops in the Arctic have participated in the food mail program for many years. We consider the program to be an essential tool for the delivery of perishable nutritious foods to the remote communities of the north.

The existing food mail program, while essential to the communities of the Arctic, is mired in regulations and rules that greatly reduce the effectiveness of the program and result in increased

transportation time, reduced product quality, and higher costs for the people of the north.

Some of the major challenges of the current program include the following.

The first is deposit days. Under the current program, product shipped to the north is inspected by Canada Post officials at entry points. Inspections take place at a specific time on a specific day. Retailers must design their product supply and logistics around these deposit days, which are not based on the needs of the communities we serve and not based on the most efficient methods of procurement and delivery.

Second is entry points. Product entering the north via the existing food mail program must be shipped through entry points specified by the program. These entry points were established many years ago and, in the case of some routes, have no relationship to existing transportation routes.

Third is claims processes. Under the existing food mail program, Canada Post does not permit retailers to file claims against their contracted air carriers for poor service. As a result, consumers pay higher prices for perishable nutritious products to cover the costs of frozen, spoiled, or damaged products. Lack of a claims process does not allow retailers to hold all members of the supply chain accountable for good service.

For more than two years, Arctic Co-ops has participated with other stakeholders in the extensive INAC consultations and review of the existing food mail program. Throughout this review, we have provided an honest assessment of the existing program and have consistently offered constructive suggestions to improve the program.

We'd like to compliment INAC and the Department of Health for the work they've done in the development of the new Nutrition North Canada program. Based on the information that's been provided to date, very important improvements will be introduced in the new program. The elimination of specific deposit days and designated entry points, and the ability to file claims for service, will result in a much better consumer-based freight subsidy program.

The new Nutrition North program does not provide any financial benefits to the retailers of the north. The freight subsidies in the new program are consumer subsidies, not subsidies to retailers. If anything, the new program will increase administrative costs for retailers, as we report to government and educate consumers on this important new program.

The Nutrition North program will eliminate the inefficiencies that exist in the current food mail program. More efficient processes and operations will enable retailers to provide better quality products, better service, and better value to our stakeholders.

Mr. Chairman, much has been accomplished in the last two years. I urge this committee and INAC to do everything possible to ensure that the new and improved program is fully implemented on April 1 as scheduled. We are committed to partnering with INAC to deliver an effective program that will provide good value and quality products to consumers and contribute to healthy eating across the north.

Thank you.

•(1535)

[Translation]

The Chair: Thank you, Mr. Morrison.

I now invite Mr. Kenn Harper, President of Arctic Ventures 2000 Ltd., to make his presentation.

[English]

Go ahead, Mr. Harper.

Mr. Kenn Harper (President, Arctic Ventures 2000 Ltd): Thank you, Mr. Chairman, members.

I have represented Arctic Ventures in business, including the food business, since 1985 in Iqaluit.

We have used the food mail program for the 25 years we have been in business in Iqaluit, and before that, at another business I owned in Arctic Bay. We saw very little wrong with the food mail program as it operated over the years, except that we did not have the freedom to source our food inventory from wherever we wanted.

When we realized in the last few years that the program was under review and faced potential changes, and when we realized that the minister might rely heavily on a report that had been commissioned by his department—the, in our view, deeply flawed Dargo report—we lobbied consistently to discredit that report and in favour of a modified status quo.

I say “modified” because there was blatant and unconscionable misuse of the existing program. This misuse came about as a result of INAC’s own foolishness in allowing items to become eligible for shipment through food mail that had only the most tenuous connection to food. Retailers and individuals in some communities were shipping Ski-Doo parts, dishwashers, clothes dryers, and even truck tires. This abuse is largely why the program was overbudget and out of control, and this abuse led to the review and to the announced changes.

Some months ago changes to product eligibility were announced by INAC. Most of those changes affected products in the higher rate category. These changes didn’t affect us. In Iqaluit my company did not use this category, because the food mail rate was fairly close to our negotiated freight rate and it didn’t warrant our using that category. However, all communities past Iqaluit use this category extensively. I cannot comment on how changes to product eligibility implemented on October 1 are affecting them.

The changes that will impact Arctic Ventures and all other retailers are those that will take effect on April 1, when Canada Post’s involvement with the program ends. We have been provided with no details on how the program will work, other than the broad generalities that were announced by the minister. We would dearly love to know the specifics of the program.

Here is what we understand.

Retailers can order their supplies from wherever they choose and have them delivered to an entry point of their choice.

Retailers will be expected to have their suppliers ship eligible-for-subsidy and ineligible items on separate waybills, as the new program is a waybill-based subsidy program.

INAC will determine and announce a subsidy rate for each community, a community-specific rate. Presumably this will be an amount per kilogram.

Each retailer will negotiate his own freight rate for food cargo and other cargo with the air carrier of his choice in communities where there is a choice. Fortunately, in Iqaluit there is a choice. The retailer will determine a freight cost to be applied to the food products landed in his community by subtracting the subsidy per kilogram from the negotiated freight rate per kilogram and then adding in the cost of local haulage.

At the end of each time period—presumably each month—the retailer will submit his claim for the subsidy, based on waybills and supporting invoices. We assume we will have to submit all of this, so the photocopiers will be busy. We have heard that INAC may contract out the processing of these claims but we have no confirmation of this. And the next stage is, we wait for our cheque.

Who benefits from this new program? You would hope that I would say it’s the consumer. I’m not so sure it’s the consumer. The big winner, in my view, is the North West Company—owner of Northern stores and NorthMart stores—with stores in almost every community. They have huge purchasing power with whichever airline they decide to ship their cargo. Money talks and they have money. They will negotiate the best freight rates with northern carriers because of their volume. The rest of us will pay higher freight rates and have to set our prices accordingly.

But I do not believe the dominant retailer will substantially undercut our prices. They never have in the past. Rather, they will price the same as us, or a few pennies lower, and their profits will be correspondingly higher.

•(1540)

So this program, in my view, has handed the North West Company a windfall, and for some small businesses a death sentence.

What about quality? Under the existing program, the carrier was required to deliver perishable product within a certain short timeframe. Who will ensure timely delivery of perishable food under this new laissez-faire program? No one will. Our shippers will consign our cargo to the airline, and we will wait.

Whose cargo will be carried first? Whose cargo will get there while still fresh? You know the answer to that. North West Company's cargo will take priority over everybody else's cargo because they will negotiate that priority as part of their contract negotiations. This will provide an incentive for customers to shop at NorthMart or at Northern.

The Chair: We are a bit over time now, Mr. Harper. If you could sum up, if there are some points remaining you will likely have the opportunity to get those out in the course of questions.

● (1545)

Mr. Kenn Harper: Okay. I'll just finish.

We've been preparing for the new ordering regime by establishing relationships with potential suppliers. We've gotten our heads around the changes. We're doing what business does best: dealing with change. But there are some things we haven't yet figured out. Under the old program, there was a level playing field for delivery costs. That is gone. The new program will not deal fairly with freight costs and quality control issues for retailers other than the largest. The department needs to turn its attention seriously to these issues in the months between now and next April.

Thank you very much.

The Chair: Thank you, Mr. Harper.

We have two representatives here from First Air. We have Scott Bateman, the president and CEO for commercial operations, and Bill Thompson, who is the VP for commercial operations.

I think, Mr. Bateman, you are going to give the presentation. Please go ahead.

Mr. Scott Bateman (President and Chief Executive Officer, First Air): Good afternoon, Mr. Chairman, and members of this standing committee. Thank you very much for the opportunity to take five short minutes and present to you.

My name is Scott Bateman, and I am the president and CEO of First Air. First Air is the wholly owned subsidiary of Makivik Corporation, Makivik Corporation being the birthright organization representing the interests of the Inuit of Nunavik.

We've been in business 64 years, and we've been operating out of Iqaluit for over 35 years. We're one of Canada's oldest airlines and have operated successfully without a subsidy from any form of government—municipal, provincial, territorial, or otherwise—over that entire 64-year period.

First Air has over 1,000 employees, with approximately 500 working in the north. We are one of the largest private sector employers in the north. With a fleet of over 21 aircraft, a diversified fleet of aircraft, First Air is the largest air carrier in the region. We provide scheduled air service to 30 northern communities located in the three territories of Nunavik, Nunavut, and the Northwest Territories. We provide scheduled air service to 30 northern communities; to 19 of them we carry food mail on our scheduled route network.

As a major stakeholder in the food mail program, we were active participants in the food mail program review process. In addition, we took it upon ourselves earlier this year to meet with many individual

members of the standing committee with regard to proposed changes to this program.

Throughout the review process, our position was, and continues to be, that certain areas of the program could certainly be improved. However, we maintain that the necessary improvements would have best been achieved within the framework of the existing program. Proposed changes to a program as important to all northerners as the food mail program should be based on a fully transparent process involving all stakeholders. Proposed changes should be based on both qualified and quantifiable data comparing the cost, efficiency, and effectiveness of the current program to the cost, efficiency, and benefits to be achieved from any proposed changes.

From this carrier's perspective, this was not the case with regard to the changes put in place to date.

Without roads, railways, or year-round marine transportation, the 30 northern communities we serve are cut off from southern supply points. As such, safe, reliable, and efficient air transportation is essential to northerners, not a luxury.

The northern air transportation system is in a state of delicate balance. Over our scheduled route network, food mail, cargo, medical travel passengers, and other passengers are carried on the same flight using specially modified aircraft. The economics of carrying both passengers and freight on a single aircraft typically supports daily service over our route network connecting the most northern communities to our north-south jet service.

Over the years, First Air and our shareholder, Makivik Corporation, have reinvested in excess of \$120 million in support of this northern air transportation network. That being said, the food mail program is undergoing material changes. With April 1, 2011, rapidly approaching, we are concerned that the users of the program may not have sufficient time to adjust their supply chain to the new reality. Changes to our customers' supply chain and transportation logistics will potentially drive the need for air carriers to amend their product offerings and reinvest in additional infrastructure elsewhere.

Thank you very much for your time.

● (1550)

The Chair: Thank you, Mr. Bateman.

Now we'll go to Mr. Eric Pearson, who is the owner of Newviq'vi Inc.

Did I pronounce that right, Mr. Pearson? Perhaps you can pronounce it for me, and then we'll make sure we get it right.

Mr. Eric Pearson (Owner, Newviq'vi Inc.): You've got it: Newviq'vi.

The Chair: Thank you very much.

Please go ahead with your five minutes.

Mr. Eric Pearson: Mr. Chairman, members of the committee, thank you very much.

The word that Mr. Stanton mentioned, "Newviq'vi", is kind of an anglicized version of the Inuit word *nuvivik*, which is the word for store.

We've been around since 1989, and the food mail system has been pretty much the *raison d'être* of the company. We've used it ever since we started in 1989.

Newviq'vi itself is an independent. We're not affiliated with co-ops. We're not affiliated with North West. We're very much on our own, and we're probably one of the largest individual users of the food mail program in northern Quebec.

The other presenters have very well summarized the old program. It was not perfect. I think we'll all admit that. There were many issues that came up, such as the entry points and the delivery schedules. But I'm focusing on what started on October 3.

On October 3, some products on that program were not eligible anymore. I'm very much concerned about what that will do to our northern population. Purchasing power will drop. We've already seen, over the last three weeks, that price increases have already started. I'm concerned that as this goes down to April 1, it will progressively get worse.

In one location, in Kuujuaq, we are talking about a potential increase in prices of half a million dollars for the consumer. That's one location, one village. I'm unfortunately a little bit shattered that the program, that used to be called a food guarantee program and a food safety program, is now no more than making sure that the product gets there, and the customers will pay whatever they have to pay.

It was also mentioned in the press release on May 21 that retailers will be able to go out and get their own transport, which, with the system in the north, is not really feasible. We don't have a lot of airline companies, so we will be at the short end of the stick. It also mentioned dealing with sealift cargo for products that will not be included in the food mail program anymore. The May 21 announcement was 21 days before our first deadline for sealift. It was not feasible to think that we could research inventory for stock and go ahead and look for warehousing.

Remember, we are one stop. We're not part of 100 stores. We're not part of 30 stores. I think the announcement may have been timely, but the timeframe for the start of this was very poor. I would have expected eight months to nine months of lead time that would have given the independent stores much more time to plan.

If there is a family business in the north, as mentioned previously, it'll kill them, because they won't have the capacity to bring product in by ship. They won't have the capacity to fight against everybody else who has a better rate.

I'd like to end on one topic. For your information, INAC has issued, over the last 15 or 20 years, a food basket cost. I've done this over the last three weeks. The food basket cost has increased by 34%. This is before April 1.

We've talked around the table, and we don't know on April 1 what will happen. We've talked about two classes of subsidies—a better one for produce, a better one for less than perishable—and we don't know what they are. I'd be really surprised if the powers that be know what they are, otherwise it would have been communicated to us.

•(1555)

I'm extremely skeptical about the way the program will materialize from here on in. Unfortunately, I think the people in the north, whether they be Métis, Cree, Inuit, or non-native, will have a hard time covering their food costs.

Thank you.

The Chair: Thank you, Mr. Pearson.

Next, it's a great pleasure to welcome Mike McMullen, the executive vice-president for northern Canada retail division. I assume that is for the North West Company. My notes may not be clear here.

Mr. Michael McMullen (Executive Vice-President, Northern Canada Retail Division, North West Company): Yes.

The Chair: It's good to have you here, Mike.

I've got to tell you that Mike and I graduated from the same high school in Orillia, Ontario. We have a few years on us since those days, but it's great to have you here, Mike.

Go ahead.

Mr. Michael McMullen: Thank you, Mr. Chairman.

Mr. Chairman and committee members, first and foremost, thank you for the opportunity to appear and make a brief presentation.

Thank you, Mr. Harper, for the kind comments.

The reactions and observations that the North West Company has in regard to the Nutrition North Canada program are simple. We'd strive to make it work for the end consumer and those communities. To that end, I will address the potential elements and improvements that can be achieved with Nutrition North Canada.

Mr. Morrison and I spend a great amount of personal time talking with INAC, providing input on areas that we think can be improved, as Andy so well elaborated on. Nutrition North Canada and the changes initiated in this program address the major concerns that existed in the food mail model. The food mail model was hindered by a lack of transparency and a lack of clear accountability.

There was little transparency as to how the food mail system worked, and at the moment of truth, when the customer bought the subsidized product, there was no clear indication of the subsidy—this despite the fact that Canada Post executed the food mail program as it was intended and structured.

The Nutrition North Canada model will deliver five basic improvements compared to the existing food mail system.

The first is supply chain streamlining. The Nutrition North Canada model supports a supply chain for eligible food items that is efficient and more cost effective. The streamlined distribution mechanics should ensure a high degree of food security on nutritional items. No matter what the size of the retailer or the spread of their different business ventures, the objective is always to bring goods to consumers in the most effective manner by reducing costs. It's the goal of big retailers, medium-sized retailers, and small retailers. A fundamental goal of the program in streamlining is getting the right nutritious products to the right communities in a timely and efficient manner.

The second is consumer transparency—transparency at the moment of truth. The combined programs of INAC and the retailers will ensure communication on a subsidy level is provided on an overall general level and potentially on a very specific product level. The communication process can visibly demonstrate and substantiate the subsidy passed through to the end consumer, as intended, and as has largely been accomplished historically.

The third improvement is subsidy transparency. Transparency of the freight subsidy will be more visible in the distribution chain. Working with INAC, the retail and wholesale community can develop clear transparency on the application of the subsidy to eligible product for both claiming the subsidy and auditing the program.

The fourth is health focus. There will be an elevated focus on both healthy people and healthy communities through the partnership with Health Canada. This will encourage and support healthy eating on a community by community basis.

The fifth is competition and growth. The Nutrition North Canada model is a competitive model, but by working directly with all wholesalers and retailers in the north, the economic infrastructure is not compromised and will continue to remain whole and hopefully grow.

What do I mean by not compromised? There are sizes of the dogs in the fight currently: those sizes do not change with a model. It is all relative. The subsidies are available equally to everyone. There is no exclusion for any companies nor for private owners, nor for southern-based retailers and wholesalers competing.

I'll take a few more minutes to add a few points to each of the major improvements.

First is supply chain streamlining. We gain efficiency and cost effectiveness by the elimination of mail slots, middlemen, and staging points. All retail systems strive to eliminate touch points, product touches movements, and staging points. The operational goal is to find the lowest-cost supply chain model for all products and essentially perishables with the related goal of maximum protection of product quality and integrity. To paraphrase Mr. Morrison, we hope that with these changes we can move the goods faster, quicker, and with higher product integrity.

Next is consumer transparency. Working directly with INAC, I believe the wholesalers and the retailers operating in the north, in established communication programs—we already have some samples here, if any committee members are interested—where we

can show on 20 to 40 products the difference with the subsidized rate versus the non-subsidized rate. We can show on specific products.

• (1600)

As a matter fact, we could action ten products biweekly or monthly that show the specific savings for subsidized rates in the Nutrition North Canada model versus the rates that the customer would pay without that subsidy in place. I think there are many communication advantages available and consumer transparency will go up. Again, we have some samples, if anyone is interested.

I'll make a few other comments on subsidy transparency. INAC gains the ability through working directly with retailers and wholesalers in the north to see what eligible product was ordered and shipped to each eligible community by air freight. The transparency would be through the whole supply chain, from store-based ordering to the end consumer. The goal here is transparent integrity, a clear process that only eligible product to eligible communities is being subsidized and be can be audited accordingly.

I have a few more points on health focus.

The Chair: Actually, Mr. McMullen, we're a little over time. Perhaps you can sum up a couple of the points and whatever's left, you will, hopefully, have the opportunity to get out in the course of questions.

Mr. Michael McMullen: Okay.

I think all retailers in the north have that physical presence that allows a platform to promote and support healthy eating. To that end, the involvement of Health Canada is a major boost to the program. We have taken the initiative to develop Healthy Eating: Paint Your Plate with Colour, a healthy eating guideline that we've already launched, that follows the guidelines of Health Canada.

We think that's the type of action and innovation that is required, in cooperation with INAC and other retailers, to advance the goals of more nutritional product being available in the north.

Thank you.

The Chair: Thank you, Mr. McMullen.

My compliments to each of the witnesses, by the way, for the pace you've used and for your presentations.

We're going now to questions from members. The first round is seven minutes, and that's seven minutes for the question and the answer.

I would caution members that we do have five witnesses here today, so if you're planning to put a question on the floor that you would like each of them to respond to, I would ask you to keep the front end of your time slot fairly brief and allow the witnesses sufficient time to do that. Don't take the first 70% and then leave it.

Again, we certainly are here to listen to you today, so I put that out to you. Of course, it's your time to do with what you will.

We'll start our first round of questions, and we'll begin with Mr. Bagnell, for seven minutes.

Hon. Larry Bagnell (Yukon, Lib.): Thank you.

In my quick summary of what I heard—in general, not totally—there is some possible improvements, but they could have been done under the existing program and not caused the number of problems that are in the new program. I want to clarify some of them that I don't understand.

Mr. Harper, you said that in the existing program you can't get the supplies from anywhere. Could you explain to me how it works?

•(1605)

Mr. Kenn Harper: I can speak only for Iqaluit, but what I'm saying applies to all communities in the Baffin region. In theory, I guess, you can get supplies from anywhere as long as you have a supplier that will truck them to Val d'Or, because the only entry point is Val d'Or for the Baffin region.

Hon. Larry Bagnell: Is there anything stopping the government in the existing program from changing the entry points?

Mr. Kenn Harper: To my knowledge, no. There has been lobbying over a number of years, from a number of parties in the past, not only me. I mean, in the 1980s and the 1990s, I used to lobby to try to get the entry point changed to Montreal or Ottawa. I ended up just giving up, because there was never any positive response and nobody wanted to listen to this suggestion. But to my knowledge, there's no reason why it could not have happened.

Hon. Larry Bagnell: The only other possible improvement I saw was the transparency, which was a problem in the old program. I can't see exactly how the new program's going to be any better in fixing that. It could be fixed in either program.

But I have another question, and that's about the claims for bad service.

I don't know, Andy, if you said that, but when you ship something through Canada Post now and the bananas are all rotten when they get there, you're not allowed to claim against Canada Post. Is that so?

Mr. Andy Morrison: Actually, we're not allowed to claim to the air carrier that is contracted by Canada Post to carry that product. We ship—

Hon. Larry Bagnell: You pay Canada Post to ship something. Are they not responsible when they ship freight for people in Canada?

Mr. Andy Morrison: One would assume, but that's not the case under the food mail program. It is different on our traditional air cargo. We do file claims for quality issues, but we can't do it on the food mail program.

Hon. Larry Bagnell: That seems like a bizarre rule in the existing program.

Related to the costs of shipping, someone—I can't remember who, but it might have been Eric or Scott—said that in the old system there was a level playing field at least. Canada Post has the deal and does all the shipping. I assume, because of that huge buying power, it has a good rate. A number of you said that the smaller companies are going to have a hard problem now because, obviously, they can't

compete with that massive volume. But no matter what, everyone is going to have a smaller amount than Canada Post had in the past.

So how can the shipping rates not be higher for some people and, in fact, for everybody? As someone said, there's no level playing field any more. It's everyone for himself.

Mr. Scott Bateman: I think that might have been somebody else's comment.

These are all my customers. We'll negotiate a value proposition with each of them that allows us to maintain the majority of the food mail.

Hon. Larry Bagnell: But normally, as an airline, if you have a person ordering one box and another constantly giving you a hundred boxes, I assume you have a slightly lower rate for the latter. I mean, that's business.

Mr. Scott Bateman: The principle is the same. But generally speaking, your larger-volume customers get the benefit of a volume discount, for sure.

Hon. Larry Bagnell: So in theory you could actually make more money; I don't want to stop you from making more money. But if Canada Post has this huge buying power, I assume it would negotiate a good rate with you. Then everyone, even the small retailers whom people want to buy from, has access to that good rate because it goes through Canada Post.

Mr. Scott Bateman: That was a benefit of the program, because they bundled their buying power and everybody benefited from a flat rate.

Hon. Larry Bagnell: Go ahead, Andy.

Mr. Andy Morrison: A further point is that for retailers in the north, food mail is not the only method we use for shipping product. We have general cargo where we negotiate contracts right across the north with airlines. We're not able to pool our buying power from our general cargo with our food mail, or our perishable type of products. So if we're able to pull together our perishable product and our non-perishable product that's not eligible and has never been eligible, we expect to negotiate better rates.

Also, under the proposed new program, we will eliminate any specific charges that Canada Post levies per case. We will eliminate all of the costs of sorting. For example, we hire companies to sort and label the product so that Canada Post can inspect it.

But one other really important point in terms of a level playing field is that there's not a level playing field in the current program. The rates for perishable nutritious products are the same all across Canada, but for the non-perishable products, what's known as food mail "B" and food mail "C", the provinces have a rate of \$1.00 a kilo and the territories have a rate of \$2.15 a kilo. So we don't have a level playing field now. The proposed new program is expected to level that playing field.

•(1610)

Hon. Larry Bagnell: But all of the retailers who are going to the same location have a level playing field now. Henceforth, they could have 30 different rates. One of the people at the last committee meeting said there wasn't a single retailer signed up in his area.

One other thing is the shortening of the supply chain. If someone goes to a city and buys some stuff and takes it to Canada Post and then sends it to their community, it's pretty short. Now they have to go to a retailer who happens to be signed up, the retailer then has to make some arrangements for shipping and send it. It isn't clear to me how that's any faster or a shorter supply chain.

The Chair: We have about 20 seconds left, if someone wants to take a chance and respond to that.

Mr. Morrison, go ahead.

Mr. Andy Morrison: Currently, to use an example of product travelling out of Yellowknife to areas farther north, we truck product out of Yellowknife. It takes 24 hours to arrive in Yellowknife. The product generally sits for a day in Yellowknife to complete the sorting process. The contracted carriers of Canada Post then have 72 hours to deliver the product. So we're talking about it taking four or five days in many cases before product even hits shelves in a community. Eliminating that process with Canada Post will greatly improve the process. We can shorten that process by days—and days for perishable products are essential.

[Translation]

The Chair: Thank you, Mr. Bagnell.

Mr. Lévesque, you have seven minutes. You will be followed by Mrs. Crowder.

Mr. Yvon Lévesque (Abitibi—Baie-James—Nunavik—Eeyou, BQ): Thank you, Mr. Chairman.

I would like first to find out more about the basis of the program. So my question will be for Mr. Bateman or Mr. Thompson.

Firstly, as an air carrier, could you explain rather briefly to me how you get the transportation contracts subsidized by Canada Post? How do you get those contracts and for what duration?

[English]

Mr. Scott Bateman: Historically, the way the process works is that the administrator of Canada Post comes out with a request for proposals by the carriers operating in the regions. It generally identifies the volume of the different products to be tendered at the different entry points, and all of the carriers make a proposal, give their unit price per kilo, and present their value proposition to Canada Post. They take those different submissions and choose the best value proposition for them. Thereafter, you typically enter into a contract for a fixed term of three to five years.

[Translation]

Mr. Yvon Lévesque: If I understand correctly, until now, each year in which you have obtained a contract, you have submitted a bid and your freight rate per kilogram was the lowest of all. A yes or a no will suffice.

[English]

Mr. Scott Bateman: I would suggest that the value proposition is a combination of service, capability, and price.

[Translation]

Mr. Yvon Lévesque: In the present situation, what are the requirements, the specifications of Canada Post? What does it include when a request for proposals is made to several companies? I think that there are at least three bidders. There are specifications describing what must be included and what are the responsibilities of the carrier. Could you explain to us what those requirements are?

[English]

Mr. Scott Bateman: Generally the requirements of the RFP, as I think Andy and the others alluded to, include our having to show a capability of moving food mail product from origin to destination in a pre-determined time. We also have to show the ability to self-measure our performance and to report back to Canada Post against our contractual obligations on a monthly basis.

For perishable food product, from the time it enters our system, we have 48 hours to get it to its final destination. For the non-perishable product, we have 72 hours from the time it gets into our system to get it to its final destination.

So those are the basic service standards.

•(1615)

[Translation]

Mr. Yvon Lévesque: You have a contract presently in force, but you are not servicing the whole country. Your contract covers a specific territory. Other carriers are servicing other regions. They must respect service standards similar to yours to meet the requirements particular to their area, isn't that right?

[English]

Mr. Scott Bateman: I can't speak to the other contracts. I can only speak to the service standards in the markets we serve. I'm not familiar with the other regions of the country.

[Translation]

Mr. Yvon Lévesque: Could you tell us how many air carriers there are for the other regions of Canada, aside from you, of course?

Mr. Bill Thompson (Vice-President, Commercial Operations, First Air): There is one in Labrador, one in Nunavik, one in Northern Ontario, one in the Northwest Territories, in the Norman Wells area, and one in Northern Manitoba. There are maybe seven or eight air carriers for the whole country.

Mr. Yvon Lévesque: I think I've heard Mr. Morrison say that he has no choice, that he cannot order from any supplier he chooses. I understand that it does not fall under your purview as your contract is for carrying food from point A to point B. Is that correct? Can you receive an order from Mr. Morrison, in Ottawa for instance, and carry it to Iqaluit?

[English]

Mr. Scott Bateman: The current food mail program has specific staging points, entry points. Food mail we can only receive. It has to be inspected by the Canada Post inspection agent at the staging point.

For other products, other than food mail, cargo and otherwise, we'll accept our customers' cargo anywhere in the country, but food mail has to be through those specific staging points under the current program.

[Translation]

Mr. Yvon Lévesque: If I understand correctly, there is a lot of transparency in your services to Northerners under your contracts. The transparency, in regards to services to people is taken very seriously.

[English]

Mr. Scott Bateman: Just to make it clear, our customer, with regard to the food mail program, is the current administrator. It's Canada Post. They carry out the inspection at inception and basically we tender it at destination to a Canada Post representative or a representative of the ultimate customer. We tend, contractually, not to have an interaction with the actual shipper. However, in reality, because of the areas in which we operate, those food mail customers are obviously our cargo customers and our passenger customers as well, but typically the food mail customer is a Canada Post customer and I'm a supplier to Canada Post in the transportation chain.

[Translation]

The Chair: Thank you, Mr. Lévesque.

Ms. Crowder, it is your turn to have the floor for seven minutes.

[English]

Ms. Jean Crowder (Nanaimo—Cowichan, NDP): Thanks, Mr. Chair.

I want to thank the witnesses for coming today.

I'm sure you were all paying attention to people's testimony on Monday. Some of the concerns you've raised today are ones that were also raised by those witnesses in terms of implementation and consultation. There were other issues around...with respect, not always being clear that the subsidy prices would actually be fully passed on to consumers, and there were some questions around what kind of controls would be put in place in order that consumers would get the full benefit of the subsidies.

I want to start with a question for Mr. Harper and Mr. Pearson.

I was looking at the discussions with stakeholders on the Dargo report, and I'm not sure your two organizations were formally interviewed. I don't see your organizations on this list. For your two organizations, because you're an important factor in many communities, how was your input sought in these changes that are proposed?

Mr. Pearson.

• (1620)

Mr. Eric Pearson: There was a group of consultants who came from out west. I remember talking to Graeme Dargo, but there was a

group of consultants who came from out west. They came to Kuujuaq and they sat down with me for two or three hours for input about the system and what I thought the changes should do, but that's really all the input I've had directly, other than discussions we've had with INAC representatives for the last several years.

I'm like Kenn; I've proposed for years and years that the food entry points should be changed to Montreal and Ottawa. We've made a whole bunch of other recommendations. We made a recommendation that the program of perishable products should be reduced substantially, not just 80¢ a kilo. It should be something ridiculous for a very tight bunch of products.

We do have dialogue with the people in Ottawa, but specifically Dargo, no.

Ms. Jean Crowder: It just seems that there is a significant, wholesale change to the program.

I just want to give Mr. Harper an opportunity here.

Mr. Kenn Harper: Arctic Ventures wasn't consulted in the preparation of the Dargo report. We became aware of the Dargo report when the Dargo report was issued, and then we set about to oppose the unrealistic suggestions that were in it, like the point-of-sale accounting for the subsidy as a way of the community members knowing it, things like that.

We did endorse wholeheartedly the shrinking of the eligible items. I support fully what Mr. Pearson says, that if the list were shrunk even further and made much cheaper it would be to the benefit of the communities. Lots of things come off those items. I heard yesterday that the media has been reporting that people in the north are upset because there is no subsidy any more on bacon and cream. I can understand why there's no subsidy on bacon and cream. I think there should be a bigger subsidy on bananas and orange juice, and milk and apples, for example.

We had our input after the fact in trying to lobby the INAC officials as to what would make a sensible program. One of the big things, if I may just take a second, is INAC wants visibility of the subsidy. Everybody wants somebody to say thank you.

Ms. Jean Crowder: That's not a good reason to change a program, sorry.

Mr. Kenn Harper: We opposed the Dargo recommendation of point of sale because if the subsidy is printed on the point of sale, it ends up on the floor in my store or in the garbage pail on the way out. Quite sensibly, INAC has opted for a signage program that they will work with all retailers in implementing, which will say...well, I don't know what it will say, but maybe it'll say, "Without a subsidy, this two-litre carton of milk would have cost you x . With the subsidy, it will cost you y . Thank you INAC."

Ms. Jean Crowder: Am I still good?

The Chair: Two and a half minutes.

Ms. Jean Crowder: Okay.

I just want to touch on the issue around planning, and I want Mr. Bateman, Mr. Pearson, and Mr. Harper to respond very quickly.

Anybody who has any familiarity with the north understands that planning has a different context in the north than it has in the south. We reference sealift and the ice roads, and there are any number of factors, including storage. I'm just wondering how you are able to plan for changes that are going to come April 1 when you have virtually no details of what the program is going to look like.

Mr. Bateman, do you want to start? It's going to impact your business as well.

Mr. Scott Bateman: The simple answer is you can't plan. You work out three or four different scenarios and you wait anxiously for the correct answer to come out. A huge volume under this program is being shipped through the staging points right now. A lot of infrastructure has been put in place. You've got multi-zone coolers and warehouses and ground-handling equipment and a lot of things like this.

As you change staging points and move that volume, whether it's Montreal, Ottawa, Winnipeg, or Edmonton, in order to respond to our customers' needs we have to add on to our infrastructure. In the south it's a lot easier to add on. Construction timelines are not as lengthy as they are in the north. The infrastructure requirements in the north are such that you almost have to plan a year ahead.

So can we plan effectively? No. But like any good business that's managed to perpetuate itself, we'll scramble and bust our gut and get a proposition to the customer that's attractive.

But no, it's very difficult to plan. I mean, this is a huge change that's going to disrupt the network across the country. From our perspective it requires sufficient lead time.

• (1625)

The Chair: There's only maybe 20 seconds left. You can make a very short comment, Mr. Harper or Mr. Pearson.

Mr. Eric Pearson: Very quickly I'll say April 1 doesn't bother me, because most of the product is perishable that's coming in anyway. What really bothered me was October 3, because as you mentioned, we had three or four months, and you can't move in the north in three or four months.

Sorry, Kenn, go on.

The Chair: Okay.

Mr. Kenn Harper: April 1 doesn't bother me either, but my issues are quite different from Scott's. He's got to deliver it, I've got to receive it. I can receive it and sell it. I don't yet know what the subsidy is. There are lots of things I don't know about it, but I'll be able to do it.

Mr. Scott Bateman: I just spent \$20 million on two airplanes to add capacity and reduce costs. Will I need those aircraft next week?

The Chair: Sorry, Mr. Bateman, we're out of time. Thank you very much.

Thank you, Ms. Crowder.

We're going to go to Mr. Payne for seven minutes.

Mr. LaVar Payne (Medicine Hat, CPC): Thank you, Mr. Chairman.

First of all, if I have any excess time I'd like to share it with Ms. Glover.

The other day I had some questions concerning competition on airlines. In that vein, I'm wondering if it's possible to move a motion that we add another airline or airlines, one of those being Canadian North, as a witness to this very important issue on Nutrition North Canada. I think that's very appropriate.

At the same time, if I might, Mr. Chairman, I'd also like to suggest that we invite as a witness the Minister of Health, Minister Aglukkaq, who is from the north, and who certainly has experience living in the north, and who certainly has a big impact from a health point of view.

As I understand it, Mr. Chairman, department officials will be here on November 15, and that might be an appropriate time to have the minister here as well.

If that's in order, Mr. Chairman, I'd like to suggest that.

The Chair: Is there agreement to consider the motion? It certainly doesn't need notice. It's germane to our topic.

(Motion agreed to)

The Chair: We're good? Okay.

Mr. LaVar Payne: Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Payne. Go ahead.

Mr. LaVar Payne: Okay.

Nutrition North is certainly an appropriate vehicle to start looking at how we can provide better nutrition to northerners. I think it's an ideal approach to this whole process we're looking at, and what INAC has come up with.

Mr. Morrison and Mr. McMullen, were you consulted in this whole process? If you were consulted, can you give us some details on the consultation, some of the recommendations you will be able to implement, and any other suggestions you have for the program?

Mr. Andy Morrison: We were consulted throughout the process and initially. When Mr. Dargo was doing his review, a department committee was reviewing the program at the same time.

Following Mr. Dargo's initial report we provided recommendations back to the department. We agreed with the assessment from Mr. Harper that the retail method suggested by Mr. Dargo was not appropriate and we could not implement it. So we went back and made other suggestions as to how the program could work.

The retailers that are organized as a group—the Northwest Territories and Nunavut independent cooperatives that have a service federation, the cooperatives in northern Quebec that are affiliated through La fédération des coopératives du Nouveau-Québec, and the North West Company—came together and reviewed the recommendations of the Dargo report. We provided our assessment of the report and recommendations on how change could be implemented in the program.

Some of the comments we had made in the original assessment by Mr. Dargo were included in the report. Some of the witnesses here today no doubt made the same recommendations we made.

So throughout the process we were asked to provide input. Some of the suggestions we made were included in the final recommendations for the Nutrition North program and some were not, but I have to say that we did have an opportunity.

Is everything perfect, the way we would like it? No. But it is a huge step forward, and we're committed to making it work.

•(1630)

The Chair: Mr. McMullen, go ahead.

Mr. Michael McMullen: Thank you.

As Andy indicated, we were consulted throughout the process and made a couple of submissions to INAC, as an alliance of northern retailers. Mr. Kennedy might have made those available to the committee at the last meeting. If not, we will certainly share them.

Specifically, are you interested in whether we were asked about the food, the nutritious product list?

Mr. LaVar Payne: Yes, or any part of that; obviously you had some input on the process through the consultations, so I'd like to hear about some of the suggestions you made and how they were received.

Mr. Michael McMullen: Very parallel to what Mr. Harper indicated, and Mr. Pearson: not our place, because INAC was working with Health Canada to determine the final list, to make the final suggestions. This is a nutrition-based program. But certainly, like Mr. Harper and Mr. Pearson said, narrow your focus and go big, essentially, on the products that matter the most. That was our collective wisdom. It parallels what you do in a pure business model. You try to make the products that are most important to your customers the most accessible. That would have been the tenet of our submissions.

We employ a full-time dietitian, and we take best advice from her on what we should suggest, but really, with Health Canada in the starting lineup with INAC, it's better to leave it to the experts for the final list. But I think all four retailers can agree: go big on the things that really matter in the north, and subsidize accordingly.

Mr. LaVar Payne: That would be certainly the perishables.

Mr. Michael McMullen: Yes, sir.

Mr. LaVar Payne: Okay.

We heard about some of the non-perishables on the list. To me they don't fit in a program where we're looking to ensure that the people of the north have the best nutrition possible. So we're going to a different process of getting the non-perishables to northerners through sealifts, ice roads, or whatever other alternate transportation modes can be best used for the best value for those northerners. I think that's an important piece of the puzzle as well.

The Chair: Thank you, Mr. Payne.

Mr. LaVar Payne: Am I...?

The Chair: Yes, you're finished your time.

Mr. LaVar Payne: I'm sorry, I didn't realize.

Thank you.

The Chair: Thank you very much, Mr. Payne.

Now we're going to go to a five-minute round.

We'll begin with Mr. Russell, and that will be followed by Mr. Dreesen, and so on.

Go ahead, Mr. Russell.

Mr. Todd Russell (Labrador, Lib.): Thank you, Mr. Chair.

Good afternoon to each of you.

There seems to be a little tension between the small independents, who have a different view of this Nutrition North program, from the larger retailers: North West Company and Arctic Co-operatives.

Can anybody guarantee customers they're going to have cheaper perishable products when this program is brought into force? Can somebody look at me and tell me, now, that you're going to be able to deliver those products cheaper to your customers over the length of the program? You must know your shipping rate, storage capacity, and all that.

Can anybody guarantee that the customer is going to get a cheap price?

•(1635)

The Chair: I think I'm seeing the hands up of all of our retailers.

If each one of you wants to take a shot, go ahead.

Mr. Michael McMullen: I'll take it at the moment, Mr. Russell.

We don't know what the rates are going to be. They're going to vary by community, and there are two levels of subsidy. None of us knows the exact details of the program yet. If you want a guarantee when that's announced, I think all the retailers and air companies could tell you at that time. Until that is announced, it is not definitive.

Does the North West Company think we can lower the cost? Yes, we do. The percentage is yet to be determined. When we get the rates, we'll come back with a less uncertain answer.

Mr. Todd Russell: Okay.

Can anybody else give us that guarantee?

Mr. Kenn Harper: Well, I can't give you that guarantee, for the same reasons Mr. McMullen thinks he can give you the guarantee: I don't know the rate.

INAC is going to announce, some day, a community-specific subsidy for the community I'm in, and a different rate for each of the other communities. It's going to be community-specific, and we don't know what it is.

My freight rate will be different from his freight rate. If I were the bigger customer, I would expect my freight rate to be different. But how much different? I don't know. I may never know.

So I don't know what the price is going to be to the consumer.

Mr. Todd Russell: I'm sorry for not giving everybody a chance here, but I want to get a couple of questions in.

Can anybody guarantee that the non-perishable items that come off the list of subsidized items are not going to go up, or that the impact of less subsidy for a certain amount of items is not going to incrementally increase other products? You have to make up the revenue shortfall somewhere.

Is it the non-perishable items that are probably going to go up?

Mr. Eric Pearson: The non-perishables have gone up. On October 3, all the non-perishables that came off the list have gone from a standard rate of \$1 a kilo, or \$2.15 in Nunavut, to the basic air cargo rate, which is \$3 and change to Kuujuaq, \$10 and change to Salluit, and \$12 and change to Pond Inlet.

Mr. Todd Russell: I appreciate the whole issue around nutritional foods, but believe me, we're not all going to live on bananas and oranges; we're going to purchase other things.

If certain non-perishable items go up, the purchasing power is going to decrease for the customer. If you have less purchasing power and you can't guarantee you're going to get less of a cost for the perishable items, how does this benefit the customer?

I've got less purchasing power. I don't know if the price is going down on my perishable items; it's guaranteed they're going up on the non-perishable items that come off the list. There are infrastructure costs that could accrue to the transporter, and that could influence the rate they charge for air cargo.

I'm just trying to find out, if I'm a customer, where's my benefit? I could end up paying more for an orange.

Mr. Eric Pearson: You're going to be behind the eight ball as soon as you start because so many people in the north are living on a fixed income. As you rightly mentioned, if you have \$100 and you're going to the store to buy your groceries, it's great that bananas are cheap and milk is cheap, but if you're going to be paying three times as much for a can of peas, and \$1 more for toilet paper, and you happen to have a baby at home who needs diapers and you're going to be paying \$5 more a box.... This is where the buying power comes in, and this is my beef about October 3.

•(1640)

The Chair: Thank you very much, Mr. Russell.

We will go to Mr. Dreeshen. He will be followed by Monsieur Lévesque.

Go ahead, Mr. Dreeshen.

Mr. Earl Dreeshen (Red Deer, CPC): Thank you very much, Mr. Chair.

Thank you to our witnesses.

Mr. Morrison and Mr. McMullen, just to go beyond where Todd was with his question, did your non-perishables go up on October 3?

Mr. Andy Morrison: Products that were non-perishable that we could ship under what we call food mail B and C, yes, were eliminated.

We had the same notification as everyone else on May 21, when the formal announcement was made. We began to work immediately on adjusting resupply orders to bring in more product. We were very

concerned about the timing. It was a very short period of time. Sealifts have just completed delivery as we speak.

We believe that we met all our requirements, but we will not know for a number of months, depending on how sales go and what inventory levels are.

Mr. Michael McMullen: For example, because we had adequate notice, we shipped more bottled water on sealift to keep the price down. In addition, because bottled water will become contentious in some communities, because there will be higher prices when we run out of the sealift supply, we invested in more Dyna-Pro machines, which are water filtration devices. So I think all retailers will try to mitigate the up-costs on this.

INAC and Health Canada deemed that pumpkins were not being consumed, and their prices rose dramatically on October 3, because they are a perishable good and you can only ship them in season. So that was passed on.

Like most of the retailers, we would have shipped a product like bacon, with good dates, so that it arrived prior to October 3 so we could extend the lower cost as long as possible and soften the blow for our customers.

Mr. Earl Dreeshen: Pumpkins, because of the non-nutritional value, I would assume, would be part of what you would be looking at there.

Mr. Michael McMullen: I think it's not only the non-nutritional value. I can't comment on the nutritional value of pumpkins. Through their research, INAC and Health Canada deemed that they weren't a product that was largely a consumable. Again, it would be more beneficial to put the subsidies behind leaf products, and produce such as berries, and so on.

Mr. Earl Dreeshen: I was also interested, Mr. Morrison, in your original discussion when you spoke about deposit days and entry points and the claims process. Then later on, people were talking about the concerns they had with Canada Post and the inspection process. All of these things seem to be delays in the system.

The first thing that went through my mind is that if you can't hold somebody accountable for the way the produce comes into your stores, then what's the real point of the inspection you had in the first place, which just slows the thing down? I was wondering if you could comment on some of the issues you saw as difficulties as far as the deposit days, the entry points, and the claims circuit, sir.

Mr. Andy Morrison: Our focus in our supply chain, particularly for perishable products, is time and temperature. The more time it takes a product to leave a distribution centre and be displayed on a retail shelf, the less time the consumer has for that product and the shorter the life of that product. In the existing program, because the shelf life of the product we purchased was greatly reduced because of increased time, we had more spoilage. More spoilage drives the price of the product up.

Eliminating even one day in the distribution cycle is one day more we can put the product on the shelf and one day more a consumer can have lettuce in the fridge before it goes bad. We think that's going to add value for the consumer. It's going to reduce losses at the retail level, and ultimately, we believe, it will increase consumption of healthy, nutritious foods.

• (1645)

Mr. Earl Dreeshen: I suppose there's also the cost of shipping spoiled product, as well, the waste that one has. There's always a certain amount of product loss you're going to have, which certainly makes that more difficult as well.

The Chair: Thank you very much, Mr. Dreeshen.

[*Translation*]

Mr. Lévesque, you have five more minutes.

After that, we'll go to Ms. Glover.

Mr. Yvon Lévesque: Thank you, Mr. Chairman.

I have another question for Mr. Bateman and Mr. Thompson.

Presently, you have entry points. Your rates are based on transportation from those entry points. I do not know if prices vary from one territory to another, but everything starts from these entry points.

There are no longer any entry points in the new program, Nutrition North Canada. If a retailer decides that tomorrow morning, instead of leaving from Val d'Or—or LG2, but I do not think that you serve that area—you will start from Ottawa, will your pricing take into account the cost difference arising from a departure from Ottawa compared with one from Val d'Or?

What would be the price difference, per kilogram for instance? Give me an idea.

[*English*]

Mr. Scott Bateman: There would definitely be a difference in staging the food mail from Ottawa or Montreal as opposed to Val d'Or. I mean, we're flying large aircraft out of Ottawa, and flying it into Val d'Or 45 minutes later. The cost of that cycle is significant with landing fees, cycle costs, engine costs, and everything else.

There is a savings to be had by staging...where the aircraft is staged, and the aircraft is staged in Ottawa or Montreal; there would be a savings versus Val d'Or. You eliminate all the costs of that stop, basically, as well as all the trucking costs from the originator up to that point. There would be a saving.

[*Translation*]

Mr. Yvon Lévesque: You would have to add costs taking into account the distance.

Let us say that you start from Ottawa and go directly to Kuujjuaq, for instance, rather than from Val d'Or to Kuujjuaq.

[*English*]

Mr. Scott Bateman: The difference in the stage length to Kuujjuaq from Ottawa or Val d'Or is minuscule. The costs that are driven by Val d'Or are the cycle costs, the engine costs of landing, flying big equipment over a 45-minute stage length. Those aircraft are based on a minimum of three hours per cycle, per flight, so your

costs go up exponentially. Plus, there are landing costs. To stop the airplane in Val d'Or costs thousands of dollars every day—more than \$1,000, more than \$5,000.

[*Translation*]

Mr. Yvon Lévesque: You offer your freight rates for the whole northern region. You base your rates on volume. Volume is an important factor in the management of your cost structure.

If your volume diminishes, can you use the same aircraft at the same price that you are asking now?

[*English*]

Mr. Scott Bateman: That's an excellent point.

Obviously our pricing is based on the volume and the aircraft type to move that volume most effectively. Under the current program we're using an extremely large aircraft, moving 100,000 pounds per flight, at roughly the same fuel cost that it used to be to move 50,000 pounds per flight.

So yes, volume drives your choice of aircraft, for sure. With less volume we would definitely go to a smaller aircraft.

[*Translation*]

Mr. Yvon Lévesque: Do you believe, as was mentioned a little earlier, that the Nutrition North Canada program would have greater visibility compared with the existing food mail program?

[*English*]

Mr. Scott Bateman: My comment is that in looking for visibility, the department can attain that under both programs equally. Signage, point of sale, and marketing materials should be available under either proposal. So the visibility is there.

• (1650)

[*Translation*]

Mr. Yvon Lévesque: Mr. Harper, you said that there would be additional costs.

In the North or in the South, the costs related to the operation of a business are integrated in the price of the product. You have a product cost and then you deduct the subsidy from that cost.

The Chair: Only a short answer, please.

[*English*]

Mr. Kenn Harper: We'll have the same product costs, or at least similar costs. We don't know what our air freight costs will be because we don't know what the subsidy will be. We will have more administration because we will have to do our end of initiating the claims process once a month.

[*Translation*]

The Chair: Thank you.

Ms. Glover, you have five minutes.

Mrs. Shelly Glover (Saint Boniface, CPC): Thank you, Mr. Chair.

I would like to welcome all our witnesses.

[*English*]

Welcome to the committee.

I need to just correct a couple of things to make sure that we don't mislead anyone and everyone understands the program, so please bear with me while I do that.

First and foremost, Nutrition North Canada came about as a result of not only the Dargo report, but a number of reports, a number of complaints of abuse as Mr. Harper pointed out, Ski-Doo parts being shipped, tires being shipped, those kinds of things. Following all of that there was an engagement process.

Mr. Harper, I note here that INAC officials met with your manager, John Bens, and co-manager Wayne Miley, on May 22, 2009, and that, again, Mr. Harper, you were invited by INAC to come here to Ottawa. Then, on October 14, 2009, INAC officials actually flew you here to Ottawa so you could take part in a workshop and talk about risk assessment. Then on January 19, 2010, Mr. Harper, you were invited again by the assistant deputy minister of INAC to provide some advice on this.

So I just want to remind you that when you were engaged by all of the entities, it's because we're trying to do the right thing. We're trying to get the best possible solution. So just the simple fact that Mr. Dargo didn't talk to you doesn't mean you weren't consulted.

I do want to remind Mr. Pearson that he was engaged as well on June 17, 2009, and at that point there was discussion already about why we were looking at this. The simple fact is that air transport costs far more than sea transport or winter road transport. That is the crux of our problem here

Not only that, but when we're providing taxpayer funds to subsidize transportation and we see abuse like Ski-Doo parts, like tires, like non-perishable items that are not nutritious value for people in the north who are suffering from health problems, it is the responsibility of this government to act. That's what we're trying to do, to act in a responsible manner so that we get this right for those people in the north who have suffered.

We touched on perishable versus non-perishable. The goal here is to take a perishable good, such as a banana from South America, from point A and bring it directly to northerners. Skip those entry points. Skip bringing it from South America to Winnipeg, where Winnipeg now trucks it to whatever entry point and then it has to again fly, because it's days long, as Mr. Morrison said.

We need to find a way to get these perishable, nutritious foods to northerners and we need to bring the non-perishables by sea or by ice roads. That is the goal of this program.

So now to my question, Mr. Morrison. How do you bring non-perishable and non-food items to northerners? Do you do it by air or do you do it by sea or by ice roads?

Mr. Andy Morrison: We use all methods. Sealift and winter road are major methods of transport for us. But we also transport by air. Certainly with the cost of air we try to reduce the amount of non-perishable products by air.

A real challenge in the food industry today is dating on product, so we maximize the amount of product that we can ship by sea to take advantage of the greatest-dating best-before dates on product. Only then do we start flying in dated product.

•(1655)

Mrs. Shelly Glover: If you had to bring by air all of those non-perishables that you were sending by sea or ice roads, you would have to jack the price for your consumers, wouldn't you?

Second, when you send by sea and by ice roads, you are then able to give a better deal, a better price to your consumers. Am I right on that?

Mr. Andy Morrison: Strictly, transportation cost for air is higher, and the transportation costs for sea and winter road are lower. The difference in the equation—by sea or by air—is the financing of the inventory, insurance, facilities, product handling.

Overall, it is lower by sea, but when you include all of the other costs, such as utilities—electricity is phenomenally high in the north—it is lower, but the gap closes tremendously.

Mrs. Shelly Glover: Am I done already? I was having so much fun.

[*Translation*]

The Chair: Thank you, Ms. Glover.

Ms. Crowder, it's now your turn.

After that, it will be Mr. Weston.

[*English*]

Ms. Jean Crowder: Mr. Chair, I have just a quick comment with regard to what Ms. Glover was saying.

I think everybody agrees that changes were required to the program. I'm not hearing anybody argue that the old program was maintained as it was. I think our responsibility is to make sure that any new program isn't going to have an impact that was unforeseen or unintended, so that's part of the reason, to my understanding, that we're looking at this.

The other comment I had was that I know people keep talking about ice roads, but there are many places that simply never have ice roads, and when you talk about sealift, that's not going to help ship in bananas. According to the Dargo report, I believe 58% of this program is utilized by Nunavut, where there aren't a lot of ice roads.

I just want to come back to Mr. Bateman. My time ran out last time when we were talking about infrastructure costs and we were talking about longer-term investments that you were needing to make. Perhaps you could just finish that statement.

And I wonder, with the change in entry points and staging areas, if there could potentially be some reduced access to flights in some of those communities that are now staging areas, because they won't any longer be required. I wonder if that's a potential.

Mr. Scott Bateman: I don't know if I understand your question. The staging points are defined as the current entry points over our route network in the east—

Ms. Jean Crowder: But you won't have to use those any more under this new program.

Mr. Scott Bateman: We don't have to use those staging points. We will accept eligible product at any of our locations for furtherance on—

Ms. Jean Crowder: But currently there are staging points that are required.

Mr. Scott Bateman: Yes, there are. Over our route network, it's Val d'Or, Winnipeg, and Yellowknife.

Ms. Jean Crowder: So my question is this. Because those entry points are no longer required under the new program, is there potential for a reduced number of flights going into places like Val d'Or because it's no longer a staging area?

Mr. Scott Bateman: If our customers want to tender us eligible product at Val d'Or, we would try to move the largest, most fuel-efficient aircraft through Val d'Or.

As I say, these fellows are my customers. They dictate the transportation chain.

Ms. Jean Crowder: But in effect, if the retailers no longer need that entry into Val d'Or, there could be reduced flights into Val d'Or and other staging areas if the retailers no longer need those.

Mr. Scott Bateman: Of course. The retailers' decisions will determine where we receive freight.

Ms. Jean Crowder: Okay.

One of the other things that's been floated as a reason for change for this program is competition. In the witness testimony on Monday, there were questions put to some of the other organizations that were there, such as you can just go to another airline if you don't like the prices that you're going to get. Of course, the reality in many communities is there is only one airline that flies in, so there isn't room for competition, but it's also directed to the retailers. Some of us who have lived in smaller communities outside of the north have sometimes had experiences where large retailers move in and crush the small retailers who shut down, and then we're left with one retailer who charges whatever price they feel like charging.

Do you see any chance of that, Mr. Harper?

• (1700)

Mr. Kenn Harper: I don't intend to be crushed. I intend to survive.

Ms. Jean Crowder: Good.

Mr. Kenn Harper: Retailers can charge whatever they want, except under the food mail program, we are constantly monitored by officials from INAC. They are always in our stores doing their price checks and making sure that the system is working and that the prices for things coming under a subsidized rate are not unconscionably high. Boy, it's been a long time since I've heard of any examples of retailers getting rapped for gouging. So we are under scrutiny for that.

As for anything else—Ski-Doo parts, Pampers—you can charge whatever you want, but you can't charge more than the customer will pay. In Iqaluit we certainly have competition. In most communities there's some level of competition.

Mr. Scott Bateman: Could I clarify one fact?

The Chair: Okay, but very briefly with a quick response.

Mr. Scott Bateman: You mentioned that in most communities there's only one carrier. We have direct competition in 98% of the communities that we serve, with the exception of the High Arctic, Resolute Bay, Nanisivik, and the southern Baffin community of Kimmirut. Of the 19 communities that we serve, there's direct competition in 16 of them.

The Chair: Thank you.

We'll go to Mr. Weston and then back to Mr. Russell.

[*Translation*]

Mr. John Weston (West Vancouver—Sunshine Coast—Sea to Sky Country, CPC): Thank you, Mr. Chair.

I also wish to thank our guests.

It would be very easy to miss the fact that the story we are hearing today is a story uniquely Canadian, a story of courage linked to the work in the North of our great country, a story about entrepreneurs. I admire you for having the courage to operate in such difficult circumstances. It is a story of accountability and a story of health.

When I say “accountability”, I am thinking about a comment made by my colleague, Mr. Bagnell, who said that the Food Mail Program was costing \$66 million. However, I learned that its cost was much lower than that. If you want, I will prove it to you.

If we recognize that the goal of the new program is to improve health and accountability in the interest of northern consumers, what is there in that new program that aims at these two goals?

Mr. Bateman, do you want to start?

[*English*]

Mr. Scott Bateman: I'll go back to my original comments. I find that the process is difficult to quantify at this stage of the game when we can't baseline these changes against anything concrete. What were the costs and issues that the changes to this program are trying to address? What have we accomplished with these changes? Where have we qualified the conditions that warranted these changes? Where have we quantified all of these comments that are included in the two major reports? How can we possibly address the issue of what we've accomplished with the new program?

We can't quantify what was wrong with the old program. We make statements that there's no claim process. We make statements about delays in the transportation chain. Where is the concrete evidence that this new change, this new program, is addressing...and what are the quantifiable benefits of it?

Mr. John Weston: Okay: so it's hard for you.

Mr. Scott Bateman: It's very difficult.

Mr. John Weston: Mr. Morrison, can you suggest a couple of improvements in accordance with our goals of cost-effectiveness in health?

•(1705)

Mr. Andy Morrison: In terms of looking at accountability and improved distribution chain, the fact is that the elimination of a day in the distribution cycle is going to improve the quality of the product that we are able to put on the shelf. The fact that the new program has eliminated a lot of non-perishable products...the dollars are essentially the same, in the \$60-million range, the old program and the new program.

If non-perishable products have been eliminated from the program, and those dollars are going to be available for perishable products, is it not reasonable to assume that we're going to be able to provide more subsidy to the perishable products?

If that's the case, if the goal is to provide healthier foods, there's \$60 million to less products, and there's a slightly smaller number of communities as well.

Mr. John Weston: But perhaps they are products more in accordance with the Canada food guide, that sustain healthier living. Isn't that...?

Mr. Andy Morrison: Well, there are requirements. There are lists of products that are available.

The important point, and it's been mentioned a number of times today, is that we don't know what the rates are. If there's roughly \$60 million available for the entire program, what will be the subsidy rates in each of the communities? If there are less non-perishable products going in, is that going to impact the subsidy rate to the consumer on the perishable products? It would seem likely to me that that would be the case. We would hope that would have a very positive impact on the cost of perishable nutritious products.

Mr. John Weston: It's classic business: you would think the non-perishable things would go the cheaper way, by sea, and the perishable ones by...

At any rate, thanks.

The Chair: That's it. Thank you very much, Mr. Weston.

We're going to go to Mr. Russell.

Mr. Todd Russell: Thank you.

I would like to know, is the Canada food guide culturally appropriate for all areas in Canada?

The Chair: You're asking me that, Mr. Russell?

Voices: Oh, oh!

Mr. Todd Russell: Oh, yes, I'll put it out there.

Mr. John Weston: He's a fitness god.

Mr. Todd Russell: I know. He's a fitness guru. He's like Fonda: he's got his Fonda tapes out.

Voices: Oh, oh!

Mr. Todd Russell: I have a couple of questions.

Mr. Bateman, can you guarantee all your customers here that you're going to be able to offer them a cheaper cargo rate because it is a new program?

Mr. Scott Bateman: All I can guarantee them is that, overall, I'll offer rates to the community at large that allow me to recover 100% of my costs and provide a reasonable return to the shareholder in order to generate a pool to replace assets as the assets come due. That's all I can guarantee them.

Mr. Todd Russell: If certain items come off, if you as retailers keep saying that we're going to try to ship more products by sea or by ice road or by some other means, would that mean less volume, potentially, Mr. Bateman, for your airline? And what does less volume do to your business?

Mr. Scott Bateman: Definitely it means less volume. Then the challenge is for me to adjust my capacity, my fleet size and the gauge of aircraft, and my flight frequency to meet the demands of the market in a cost-effective manner. Obviously I have to adapt my business model to the market.

Mr. Todd Russell: So if you have less volume going in but you now have a multitude of points from which to pick up this smaller volume, what does that potentially do to your costs? How does that get passed on to your customer?

Mr. Scott Bateman: I think at a multitude of points—we operate at most of the points that are probably being considered as staging points going forward. I think the key issue for us is the volume that gets tendered. As I say, I carry cargo, mail, passengers, medical travel to the northern communities over a single aircraft. So I would revisit my product offering and realign it with the demands of the market.

Mr. Todd Russell: To the big retailers, what percentage of increase in product do you think you'll now be carrying by sealift, for example? How much volume reduction do you think you'll have in terms of air cargo? Have you made any calculations on that?

•(1710)

Mr. Michael McMullen: Mr. Russell, it's not only the method of transportation but it's the infrastructure on the ground. In terms of the infrastructure investment that we have in the 69 communities that we operate in, our net book value of those assets is \$76 million. In those markets, we'll spend \$15 million every year in capital expenditure and we'll invest about \$3 million in new housing or renovated housing for our staff.

So it's not just the shipping method. We can't, overnight, grow and expand the size of our footprint. We will; we'll continue our capital investment expenditure, and the Nutrition North program will act in many ways as an inducement for further investment by northern-based retailers to grow their plants.

We would obviously like, given all the good points that Andy said.... Take heat and electricity; I don't know what it costs everybody else, but in the communities we're affected by, it's a bill of \$10 million a year. Our paying that \$10 million allows the rest of the infrastructure in those smaller communities to be supported.

To answer your question, we will ship more product by sealift, but hopefully the northern retailers want to keep the economy vibrant and growing in the north. Our role is to make sure more customers are induced to spend money in the north rather than seeking the product elsewhere.

So the answer is that we're going to do our best to put money, investments, capital expenditure, inventory and assets, and hard infrastructure on the ground in order to bring more product to the north, totally. We never ship tires or spare parts or snowmobile parts. We've never engaged in that business. That wasn't part of our game plan.

In terms of more air shipment, if we work together with INAC, the air carriers, and other retailers, if we focus that air freight on perishable goods, we can do a better job. To tell you the exact impact, bottom line for the customer, I don't think any of us have the total knowledge to do that, but we think we can make a good program here.

The Chair: That's it, Mr. Russell.

I'm going to take a brief spot here, and I think we have enough time to get the other members on the list here as well.

This is really to our retailers on the question of transparency. I wonder if you could each just give a minute on how, under the new program, your customers are going to be aware of how the subsidies are impacting the costs of the goods—this is, of course, all in the perishable realm—that they're going to find at your store.

We'll start with Mr. McMullen and then we'll go across the table for about a minute each, and that should take about the right time.

Mr. Michael McMullen: Thank you, Mr. Chairman.

Overall, INAC will have a communication program, which we will post in all stores as required. We'll develop communication packages in line with INAC. They'll take this type of flavour to them, where we advertise specific products. We might call it "Nutrition North in action", but we'll talk about what happens to bananas both with and without the subsidy. We'll have posters in our stores on this type of program, on what the subsidy means for 5 pounds of potatoes, 10 pounds of apples, etc.

So we'll have this type of poster, with 25 to 50 high-volume nutritional items posted in all stores on a weekly basis, biweekly basis, whatever is realistic. We'll post "in action" products. What are "in action" products? In February we promote berries. Berries will be a subsidized product, as they are now in the Nutrition North program. As we promote berries we take a discount at the consumer level to inspire them to buy more.

The Chair: So the list is going to change from time to time, depending on what—

Mr. Michael McMullen: Absolutely. You have to keep the customer informed.

The Chair: Mr. Pearson.

Mr. Eric Pearson: We've been told by our point-of-sale supplier that we can accommodate the subsidy rates right on the cash receipt for the customer, or on the screen for the customer.

I also understand there is advertising money within this program that's going to be given to regional health authorities to do some kind of advertising within the community. Again, we're operating on an unknown area here exactly as we're operating on an unknown subsidy. We don't know what's going to happen. I think for national

health and welfare it's the same situation. The money is there to publish this to customers.

The Chair: Great.

Mr. Harper.

Mr. Kenn Harper: We're told by INAC that there will be a signage program implemented, and we intend to participate in that. It was one of the recommendations that I consistently made.

I just want to correct the misrepresentation that I said I was not consulted. I didn't say I was not consulted; I was responding to a specific question about whether I was consulted by Mr. Dargo, which I was not. I did participate in many other consultations after that.

We buy a full-page advertisement in *Nunatsiaq News* every week. We will use that to advertise the food program.

I hope, despite Mr. Pearson's comments, no one wants to go back to looking at the point of sale on the cash register thing, because at the risk assessment workshop that we all participated in, we were told...I believe North West Company and the co-ops each said it would cost about \$5 million to change their cash register system. It would cost me a lot for mine as well, so please don't go there.

But we will cooperate totally with the signage program.

• (1715)

The Chair: You have means to make that.

Okay, Mr. Morrison.

Mr. Andy Morrison: Mr. Chairman, throughout the consultation process we've had a number of discussions with INAC and a number of the consultants who have been working with INAC on an appropriate method of promoting the program and educating consumers. Many of the methods that have been suggested across the table here are the kinds of things that we've discussed.

I know certainly from our side we're prepared to work with INAC, with whatever method is finally agreed on: posters, shelf information, pamphlets, newspapers, cable television, whatever works.

The Chair: But the main thing is that it's going to be clear to them to what extent the program is helping the price of that particular item, whatever it happens to be.

Mr. Andy Morrison: That's correct, yes.

The Chair: Thank you, all.

[*Translation*]

Mr. Lemay, at last, for five minutes.

He will be followed by Ms. Glover.

Mr. Marc Lemay (Abitibi—Témiscamingue, BQ): Firstly, I would like to thank you. My colleague Yvon Lévesque, for Abitibi—James Bay—Nunavik—Eeyou, has mentioned the problem raised by the new Nutrition North Canada program. I suggest you make note of that date in your agendas and to reserve it also for next year. I have the feeling that we will meet again because I intend to make sure that we will follow very closely that program and its implementation. It is a program that will become extremely important.

There is a kind of grey area which I hope will be clarified to your satisfaction before April. If it does not happen, I would suggest that you communicate with us as soon as possible—it does not matter if it is with members on the government side. What is important around this table are the interests of Northerners. If there is any problem, please, contact us.

I have two questions and I would like a short answer. I would like to hear you concerning the shipping of country food because that subject has not been mentioned yet. Arctic char, caribou and muskox are part of country food. Have provisions been made for that type of food in your area?

If you had only one recommendation you would like to make to our Committee—because we are going to meet with the officials—what would it be? What issue would you like to see resolved rapidly? I will let you answer. There must be three minutes left.

[*English*]

The Chair: Sure. We'll start with Mr. Morrison and then we'll go across the table.

Mr. Morrison, go ahead.

Mr. Andy Morrison: On the matter of country foods, as I understand the new Nutrition North program, there is a provision for country food, which we think is a very important addition. The country food provision will provide for the transport.... Food processed in federally inspected facilities will be eligible for the Nutrition North program. There are not enough federally inspected facilities to meet all the needs, but I think it's a very important step forward.

In terms of a recommendation that you could bring to the officials of INAC, it would be this: provide us with the rates and the process that will be required for the reporting.

Mr. Marc Lemay: Yesterday.

Mr. Andy Morrison: Yesterday, yes.

[*Translation*]

Mr. Marc Lemay: Okay.

[*English*]

The Chair: Mr. Harper.

Mr. Kenn Harper: You're asking for one recommendation. I'm going to try to speak quickly—not too quickly—and give you more than one.

I would recommend to find a way in this subsidy program to level the playing field for the freight costs between companies operating in the same community for nutritious perishable food.

I would also suggest that with the elimination of a lot of product eligibility, it's possible that this program will come in under-budget, and I would suggest that this possibility be looked at very carefully to make the subsidy portion higher so that the cost to the consumer is lower on nutritional perishable food products, way lower.

• (1720)

The Chair: Mr. Bateman.

Mr. Scott Bateman: As far as the country food issue is concerned, we currently offer deeply discounted rates to move country food between the communities that we serve. We would welcome the opportunity to participate in a formal program through INAC on the distribution of country food.

One recommendation at large is that I think the whole review that we've undergone has taken a good, hard look at 25% of the selling price of a product. I would consider expanding the scope of this review to look at the other 75% and look at further subsidizing and increasing the subsidies to further reduce the cost to the ultimate consumer.

[*Translation*]

The Chair: Thank you.

Mr. Pearson.

[*English*]

Mr. Eric Pearson: As Scott has mentioned, there already is a subsidy in place, a special rate with First Air, for country food. Unfortunately, the communities covered are in the western Arctic, other than Pangnirtung, so it becomes very inaccessible for us in northern Quebec.

As for a recommendation, I second what Scott has said. I believe we have to get some definitive answers for April 1, and we have to look at if we can get back to expanding the program, because we're having severe issues with consumable income in the north.

The Chair: Thank you.

Mr. McMullen.

Mr. Michael McMullen: We currently ship country food and will continue to do so. We will embrace the program, but I think Mr. Morrison brings up a good point: we'll need more federally inspected plants to make it really work.

One recommendation: I'd put this recommendation on INAC, that the rights and processes are important, and bigger bang for your buck. Go after those high-volume, high-value nutritional products.

And I'd also make one recommendation to the retailers: product innovation. Look at your produce—we all do all the time, every day—and find out if there's a way that we can secure from our vendors, as I think Scott was alluding to, different packaging, different ways of getting nutritious goods to the north that are more cost-effective.

The Chair: Thank you, all.

Merci, Monsieur Lemay.

Madam Glover.

Mrs. Shelly Glover: Thank you, Mr. Chair. I was having so much fun the last time, I thought I'd take another kick at the cat.

I'm a mother of five children, and what really interests me in the Nutrition North Canada program is that as a mother, the interest of my children's health is something that's being considered heavily in this program, which under the food mail program didn't exist. It wasn't about getting nutritious food on the tables of northerners, it was more about just getting food to the north.

When we look at the non-perishables—we've talked a little bit about it—I want to get a clear idea of why these prices have gone up. I, as a mother, go to the store, and if the non-perishables that you're talking about that have gone up in price have gone up because of transportation costs or things like that, I'd like to know that. If the foods that have gone up in price are the foods that we removed because they had low nutritional value, like ice cream or bacon, I'd like to know that as well.

The reason I ask is that we're trying to promote to mothers and fathers, all northerners, to buy foods that are nutritious. Frankly, as a mother, I don't care if bacon and ice cream go up because they're not nutritious for my children. I do care if items like perishables have gone up, items that are nutritious and that have been identified in our eligibility list go up.

Mr. McMullen, can you give me examples of what foods went up in price as of October 3 so that I have a better understanding of what happened October 3?

Mr. Michael McMullen: Let's take the examples of bacon and Arctic Bay. Bacon in Arctic Bay went up in retail price because the freight rate moved from 65¢ a pound to \$3.93 a pound. So that's an item that became non-eligible. The same thing happened to pumpkins.

So yes, we—meaning INAC or us—could have informed the public in advance of the magnitude of the change because we knew the freight rates going in and we know what we pay for the rest of our freight.

• (1725)

Mrs. Shelly Glover: Just so I make it clear, it's the foods that are no longer considered either nutritious, or, like a pumpkin...it's heavy and it's going to cost a lot to move that, and for the price you can get a can of puréed pumpkin. It's just common sense. But as for foods that we deemed as nutritious that are going to be subsidized, did they go up? I understand the ice cream and the bacon. We said we're not going to subsidize those anymore because they're not nutritious.

Mr. Michael McMullen: Let's take Kuujuaapik; and I can only speak for us. On October 9, for a bundle of 15 products that were eligible then and 15 products that are eligible now, including fresh meat, commercial bakery, fresh fruit, eggs, dairy, the inflation rate year over year was 1.18%.

So the answer is no, they did not change October 3.

The major fluctuation that I hope everybody in the room is aware of in produce, and it extends to meat, is the Canadian dollar versus the U.S. dollar. Most of the retailers in this room that I know of—because we don't grow bananas in Whitehorse or anyplace else—get their supply from the U.S. in produce. If that dollar value changes substantially, you will see an increase in the price of produce. That has nothing to do with either the old food mail program or the Nutrition North program.

So we have to be aware of all economic factors, Ms. Glover, that can impact the price of perishable items—especially perishable items—especially with the commodity prices.... Why do you think that potash company of Saskatchewan is in such hot demand right now? Commodity prices are rising. Pork bellies went up, what, \$1.70 a pound? Bacon went up \$1.70 a pound just in the commodity price in the last three weeks, and that's in the U.S., in the southern markets. So we have to be aware of those things when we talk about Nutrition North.

And, Mr. Lemay, when he talks to us next year, that's one of the things I'd like to make sure that we are talking about: the right economic influences.

Mrs. Shelly Glover: Thank you.

I have only a few seconds left. I just wanted to again make a correction. I'm one of those correctors. I should have been a teacher.

We never want to see bananas going by boat.

Voices: Oh, oh!

Mrs. Shelly Glover: That is not the intent of this. I don't want anybody to misunderstand.

We expect that perishables will get there in a manner that will make sure that they're fresh and can be consumed. If they don't get there and they're spoiled, then there is recourse under this new program that was not available under the food mail program. You do have the opportunity, as Mr. Morrison said, to go after them.

Mr. McMullen, I see that you have a comment.

Mr. Michael McMullen: Andy started us down that road. Andy was fundamental in striving to make the points with INAC. I don't know what the other retailers are seeing, but the shrink rate in the north for produce can be as high as 16% to 18%. Those are goods that we cannot sell when they arrive. The industry standard in the south is 8%, so you just take that as a cost of doing business and providing perishable goods—

The Chair: Okay. Thank you, Mr. McMullen and Ms. Glover.

Mr. Bateman, you have maybe 10 seconds.

Mr. Scott Bateman: Mr. McMullen, when you talk about the shrink rate, are you factoring in the events of *force majeure*, where a community can be down for nine days while your perishable product is sitting at the hub?

Mr. Michael McMullen: Oh, absolutely, Scott. As you know, it's a complicated thing. But also...any time wasted in the chain, as you well know.

The Chair: Okay, that was great. That was a good little exchange there, if a little outside the bounds of our mandate, but that's fine.

Let's go to Mr. Bagnell. We have a couple of minutes left. I'll give a heads-up, though, before people run out of the room: I do need to see the subcommittee members for 30 seconds before you leave and run out of the room at 5:30.

Mr. Bagnell, go ahead.

Hon. Larry Bagnell: Thanks. I don't have very long, so you will probably have to get back to me in writing if you have any comments on these points.

We had a lot of complaints yesterday about problems the new program would cause, and a couple more today, but the things that were problems could, I think, be solved in the existing program. Actually, the existing program does try to get nutritious foods, and they periodically review it, so that could easily have been done. Getting more stuff on sealift could easily be done under the existing program. That doesn't need to change.

The policing program actually seemed to have more chance in the existing program because we've got Canada Post inspectors. Now you're going to have inspectors for all these different transport agencies.

You're right about the recourse. INAC should have put that recourse into Canada Post long ago.

With respect to the sealift, the heat and electricity aspect is a good point in the north. People yesterday said that now we're going to have to have more storage facilities in the north—the \$10 million you mentioned—and then all that gets added to the price of the products up there.

Pamphlets are a great idea, and we can't do that under the existing program. In fact, we only have to have the one carrier price, as opposed to all these prices for these different carriers.

Mr. Morrison, Mr. Harper, and Mr. Bateman made a great point, which was that we'd better be seeing lower prices for the good

nutritious perishable foods now that we've taken others off to save money.

Finally, I thought that Mr. Dargo actually did a lot of consultations, but that the recommendations didn't reflect what people were telling him directly. He did talk to a lot of people and he made some good points about what they told him, but when I saw the recommendations in the very end, they didn't seem to totally reflect that.

Does anyone have any thoughts on that aspect?

• (1730)

The Chair: We're really out of time. I'll take one witness, if anyone would like to respond.

Mr. Harper, go ahead.

Mr. Kenn Harper: I wasn't consulted by Graeme Dargo, but at some of the sessions and in the risk assessment session, which involved all the retailers, it became quite clear that many of the recommendations that Mr. Dargo claimed came from the major retailers had not come from them at all. They denied any knowledge of having given that input.

The Chair: We'll have to leave it there. If you could forward responses to some of Mr. Bagnell's other questions, that would be great.

I'd like to thank all the witnesses for joining us here this afternoon. It's been very informative for our study.

Thank you, members, for all of your questions. We'll see you back here a week from Monday, after the break, and we'll continue our study on Nutrition North Canada.

Thank you very much. Have a good afternoon.

The meeting is adjourned.

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