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Chair

Mr. Bruce Stanton

Standing Committee on Aboriginal Affairs and Northern Development

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• (1530)

[Translation]

The Chair (Mr. Bruce Stanton (Simcoe North, CPC)): Welcome to the committee members, our witnesses and our guests. This is the 36th meeting of the Standing Committee on Aboriginal Affairs and Northern Development.

Pursuant to Standing Order 108(2), we are continuing our study on Nutrition North Canada.

[English]

We welcome four witnesses here this afternoon.

I would also say, members, that this is the last meeting at which we'll be hearing testimony on the study subject. We'll go through each of our four presentations today.

I'm sure that some of you have done this before or have at least been in the audience. For those of you who have not done this before, customarily we go through the presentations for each of the four, and then we open it up to questions and responses from witnesses.

The members will have a number of questions, I'm sure. That's the most interesting part of our committee hearing. I shouldn't say that, because of course, your presentations are absolutely interesting, and we'll be welcoming them here this afternoon. As I've said, this will wrap up our testimony. After this, we'll be going into consideration of a draft report.

I think we'll go in the same order you see listed on the agenda here today.

With that, we welcome Mr. Ben Ryan, who is here representing the organization Air North, which we have heard about to this point in the testimony.

Please, Mr. Ryan, go ahead with your presentation. You have about five minutes. There are four of you here today. We'll allow you a little bit of extra time, but nothing close to 10 minutes because of the number of witnesses here this afternoon.

Go ahead, Mr. Ryan.

Mr. Ben Ryan (Representative, Air North): I don't think I'll need to exhaust too much time. I'm here on behalf of my father, Joseph Sparling, president of Air North. I came to deliver a report that he wrote. You will receive the report in both languages as soon as it's translated.

Essentially, the report aims to do three things: define the issue as we see it; identify our stance; and provide you with some background information on the Old Crow to Whitehorse market, to which you are currently providing the food mail subsidies.

The issue as we see it is that the Vuntut Gwitchin First Nation of Old Crow would prefer that the subsidy to reside at the transportation level rather than at the level of retail.

The community of Old Crow has a couple of reasons for its concern about having the subsidy at the retail level. First, Old Crow is in very close proximity to a competitive market, Whitehorse, where there are a number of grocery stores, including speciality food stores and organic stores. There are tons of food options with competitive pricing.

Essentially, one of their primary concerns is that the grocery subsidy would limit the variety of competitive choices available in the community of Old Crow. This would occur because presumably not all retailers in Whitehorse would be interested in adopting the subsidy program and administering it, so a system whereby the program was administered at the transportation level would then allow consumers to access any grocer in Whitehorse.

There's a compelling argument for that in terms of cost. In my father's report, it is illustrated that we can get food on the table of customers in Old Crow at a 13% premium over what it costs in Whitehorse, so the pricing is very competitive. We're able to leverage economies of scale in order to drive prices down. The other convenient factor is that we fly to Old Crow five days a week in the peak season. You're actually able to put in an order and receive food within one to two days, at a very competitive price.

Essentially, the two concerns that the VGFN has expressed are that they will have a limited number of options if the subsidy is at the retail level and that prices may suffer.

Our stance on the issue is that essentially we have no problem with the Vuntut Gwitchin proposal that the subsidy reside at the transportation level, but if you look at the report, and particularly at our 2009 income statement information, we actually operated at a slight net loss on the Old Crow segment.

For this reason, we want to make it very clear that this isn't really a profit-generating opportunity for us as much as it is an opportunity for us to back the Vuntut Gwitchin First Nation, which is a huge part of our organization. We've been in business for 30 years with the local communities up north, so it's very important to us, as long as we don't fundamentally disagree with their objectives, that we have their back, and we try to address their concerns as much as possible. Essentially, our stance is that we agree with the Vuntut Gwitchin First Nation, and we are willing to comply with their request.

We also feel that we are well poised to administer the food mail program. I've worked in cargo in Whitehorse for probably seven or eight years, so I'm very familiar with the way the food mail program works. If we started administering the program, not a lot would really change, other than some accounting considerations.

Essentially, we've been the point of contact between the community and the food mail program all along. If you're in Old Crow and you have any questions or concerns regarding food mail, you would be phoning me at the cargo office. You would be dropping off your freight to us at the cargo office. It is for these reasons that we have a very thorough understanding of, first, the food mail system as it currently exists, and second, the customers who are the people in the community of Old Crow. I think that's one of the compelling advantages that would enable us to be very effective in administering the program.

One point that I'd like to make is that we deal with the customer on both ends, on the shipping end and on the receiving end of freight, so the feedback channel to the people overseeing the program would be very strong in the event of us administering it.

The other issue I want to point out is one of oversight. Having the program run through one point, that being Air North, we feel it may be easier to oversee from an administrative perspective.

The rest of the report is simply designed to give you background information on why we feel that our cost structure is competitive and why we feel that we can continue to deliver competitive prices to the community of Old Crow. Essentially, prices would not take a hike with us administering the program.

That's the gist of our report. My contribution will probably be more during the question and answer period.

• (1535)

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

As Mr. Ryan indicated, he does have a more thorough report here. It is in only one language, so we will undertake to get the transcription done, and *la traduction* complete, we'll get that out to you in the days ahead.

We'll now invite Mr. James Ballingall to present. Mr. Ballingall is here representing Cargojet Canada Limited and is the vice-president for business development, air cargo division.

Go ahead, Mr. Ballingall.

Mr. James Ballingall (Vice-President, Business Development, Air Cargo Transportation, Cargojet Canada Ltd.): Thank you, Mr. Chair, members of the committee, and other guests here today. We sincerely appreciate the opportunity to present our views and to

provide feedback on the new Nutrition North Canada program, specifically as it relates to the cost of air cargo transportation.

Allow me first to provide a brief background and description of Cargojet in order to put into context our ability to provide commentary and opinion on this issue.

Cargojet is a Canadian-based public company. We trade on the TSX and our executive and senior management team have over 500 years of combined air cargo transportation experience. We are Canada's cargo airline. We have been recognized with numerous industry awards, including the award as one of Canada's 50 best-managed companies. We are the only Canadian cargo airline that is a full member of IATA, and recently we achieved our ISO 9001 quality accreditation for the ninth consecutive year.

We provide air cargo services across Canada and are the only air cargo carrier that operates a scheduled Canada-wide overnight air cargo network providing air cargo services to multiple customers. Typically, other cargo carriers operate aircraft in networks on behalf of a single air cargo customer.

We operate our air cargo network using a modern fleet of B727, B757, and B767 freighter aircraft on behalf of major couriers, freight forwarders, and various manufacturers. We carry over 750,000 pounds of time-sensitive and time-definitive air cargo every business night, including perishable foodstuff and temperature-controlled pharmaceuticals among a vast range of products. We do this with a high level of reliability, operating at over 98% on-time performance and virtually claim-free in respect to loss or damage.

We are experts in air cargo transportation, which will continue to be a vital element and the single largest cost component of the new Nutrition North Canada program. Cargojet supports the elimination of the outdated and costly single entry point concept that forms part of the current food mail program. It will improve efficiency by eliminating the middleman, reducing the delivery time from the producer to the shelf, and ultimately lowering the overall cost to the consumer in the north.

It is recognized that the majority of nutritious food products that make up the new program are grown, sourced, or purchased in the southern parts of Canada. Flying them directly to the north whenever possible will significantly lower transportation costs.

Many southern-based air cargo carriers, including Cargojet, have the aircraft capacity and availability to provide air cargo services between southern Canadian points and the major northern destinations of Iqaluit and Rankin Inlet. Two or more northern air carriers provide sufficient competition and, presumably, competitive pricing, as these carriers serve approximately 98% of these smaller communities.

Utilizing aircraft assets that have the fixed cost of ownership paid for by their overnight air cargo business to provide air cargo transportation during the day from southern points to the north will provide significant cost savings to the Nutrition North Canada program. Removing the fixed cost component of any air cargo carrier reduces the transportation cost by approximately 25% to 30%. This is a significant cost saving when the average air cargo cost is approximately \$4 to \$5 per kilo.

These cost savings can be passed on directly to the consumer by northern retailers and will help government to reduce the overall cost to the Nutrition North Canada program. It will also help to provide lower costs of transport for other non-subsidized—yet still needed—products for northerners.

In summary, Mr. Chair, we believe this can help to ultimately provide three fundamental benefits to the Nutrition North Canada program.

Number one is to provide the lowest air cargo transportation cost to all retailers. This model presents new elements of competition and growth that enable the program to be a more competitive model by allowing retailers and suppliers to access the lowest cost of air transportation.

Number two is to improve reliability and provide fresher products for northerners. We applaud INAC's fundamental goal of supply chain streamlining and improving the availability of more nutritious and fresher foods for northerners. Sourcing products from various southern points and matching the right aircraft type to the demand will lower costs and enhance delivery time and freshness for northern consumers.

● (1540)

Number three is to ultimately reduce the subsidy levels required and/or provide the resources for additional required products at cheaper costs. By opening up the transportation component of the Nutrition North Canada program to more competition, there is a tremendous opportunity to significantly reduce the cost of food and other essentials for northerners.

In conclusion, Cargojet believes that the changes made to the old food mail program will allow market forces to determine the lowest possible air cargo transportation cost options. Savvy retailers and other shippers will take advantage of these cost reduction opportunities to grow market share and improve reliability and freshness of products to their customers in the north.

The people of the north will win with lower costs, improved availability, and better quality food products, and the government and the taxpayers of Canada will win with potential lower cost levels in the future.

Thank you for the opportunity to speak to you today. I look forward to your questions.

● (1545)

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

We'll now invite our guests from the Fond du Lac Denesuline First Nation to present. We have with us Chief Napoleon Mercredi. With Chief Mercredi is Mr. Darryl McDonald, who is the CEO for the first nation.

I understand, Chief, that you are going to lead off this afternoon. Please go ahead with your presentation.

Chief Napoleon Mercredi (Chief, Fond du Lac Denesuline First Nation): Good afternoon. I am Chief Napoleon Mercredi from Fond du Lac First Nation and I have with me the corporate executive officer, the CEO, of Fond du Lac First Nation.

I would like to thank the chair and committee members and the minister and the staff for giving us an opportunity here to speak about our community and the Nutrition North Canada program.

I will pass the mike on to Darryl McDonald, who will speak to the topic.

Thank you.

Mr. Darryl McDonald (Chief Executive Officer, Fond du Lac Denesuline First Nation): Good afternoon.

This is just a brief overview of our presentation. We'll eventually forward a completed document.

To begin with the background, on behalf of the Fond du Lac First Nation, I will just briefly describe our community and the history of the people. Fond du Lac is situated on the north shore of Fond du Lac on Lake Athabasca. It's south of the 60th parallel. It is one of the few fly-in communities left in northern Saskatchewan.

During the winter, we have winter road access to a seasonal road. It may take about 13 hours, on average, of driving to the nearest centres, such as Prince Albert, Saskatchewan. We fall under the riding of Mr. Rob Clarke, Desnethé—Missinippi—Churchill River.

I'll provide some other background information. We have put this briefing in previously as well, in 2009, regarding a 1989 policy for the Saskatchewan region under Indian and Northern Affairs Canada. During the aggregation of tribal councils that were continuing to build capacity, Indian and Northern Affairs introduced at that time a northern composite factor, which is a policy that determined funding transfers. Fond du Lac was affected.

Initially there was a road being built through La Loche, where there was a paved highway, and then seasonal road access on the south shore to Fond du Lac and eventually to a narrow or shorter distance just across the lake. Eventually that was switched around, and now it's situated on the eastern side of the province through Points North and Black Lake First Nation.

Since that time, we've submitted requests to have this factor reversed, but it's somehow set in stone, where our funding as an isolated community is somehow not factored in. We may have top-ups with regard to transportation if, say, there are projects or other factors that come into our communities.

That's just the background or some of the information I've provided in the report.

The original road was redirected on the north shore from La Ronge to Black Lake First Nation and the policy remained intact. To this day, we are considered a non-isolated community. This is very important to note, because under the new program we fall under the nominal subsidy under Nutrition North Canada, whereas we are comparable to communities like Gods Lake First Nation and Lac Brochet, Manitoba, which qualify for the full subsidy. So in essence, we are urging the committee to review this and to reconsider our position that we be considered for the full subsidy.

There is other research out there that I will put into the final report. Under the Aboriginal Research and Environmental Consulting group out of Winnipeg, we had various remote communities across Canada, and Gods Lake and Fond du Lac were comparable in the sense that we had similar needs and wants, visions and goals, and missions of our youth and communities. We went through these types of exercises, which I will also provide.

Concerning the subsidy programs, many of our community members may be challenged to access such programs because of socio-economic factors. In other presentations I've read, the same has been reiterated: it was harder for low-income families to have access to other programs that were run through Canada Post and so forth. I don't want to go into detail. You have had other presenters who have gone through this whole process of presenting.

The disadvantage we have as individuals is the high cost of groceries. We're forced, through seasonal roads and other means during the summer, to take our own vehicles and shop down south for our groceries, which may lower costs and provide means for others, because the local Northern Stores company is the only company that's providing groceries to the community, and their groceries are way up. They only provide, as the other presenters have said, pop, candy, snowmobiles, and other non-essential foods. We don't get access to the nutritious foods that other Canadians enjoy in the southern communities.

● (1550)

During the summer, we also take advantage of water transportation. There is a local company that provides services to the isolated communities on Lake Athabasca. This lessens some of the costs for fuel, petroleum, building materials, and things that come into the community that may not be provided during the summer seasonal road access.

The other topic I want to bring up is health and how it impacts our communities. We recently established the Athabasca Health Authority, which is a regional agreement whereby first nations, the municipality of Stony Rapids, and Indian and Northern Affairs, through Health Canada and other partners, have provided service in the northern region of Lake Athabasca.

This provides services to the surrounding areas, such as Uranium City, Camsell, Fond du Lac, Black Lake, and Stony Rapids. The other community that's nearby, Hatchet Lake First Nation, is serviced under the La Ronge health region.

The Chair: Perhaps you could just wrap up there now. If you could, Mr. McDonald, I'd appreciate it.

Mr. Darryl McDonald: All right.

The community of Fond du Lac has other programs through the national child benefit program, which does allocations for cultural enrichment and child nutrition. This also is a factor when high costs of transportation hinder the full delivery of that program, whereas through this renewal of the Nutrition North program, factors like this and security of food, such as caribou, which is a main staple of food for our region.... There could be other factors whereby community freezers or community infrastructure to provide year-long access to caribou would be a good strategy for the program if an incentive were provided.

Thank you for allowing us to present to you a brief overview on Nutrition North Canada and the community of Fond du Lac First Nation.

[*Translation*]

The Chair: Thank you, Chief; thank you, Mr. McDonald. *Meegwetch.*

Now we welcome Mr. Richard Brouillard, Director General and President of Airport of Val-d'Or and Regional Committee of the Food Mail Program. He is accompanied by Mr. Jasmin Frappier, Director General of Valpiro Inc.

Mr. Brouillard, you can begin.

Mr. Richard Brouillard (Director General and President of Airport of Val-d'Or and Regional Committee of the Food Mail Program, Valpiro Inc.): Mr. Chair, ladies and gentlemen of the committee, thank you for this opportunity to offer our point of view.

As you just mentioned, Mr. Chair, I represent a committee of stakeholders including wholesalers, carriers, and freight handlers, as well as our region's airport. I am accompanied by Mr. Frappier, who is the director general of Valpiro, a company that has specialized in preparing cargo for shipment to areas of the north for more than 30 years. The company is wholly owned by the James Bay Cree.

Almost three-quarters of the total Canadian volume in the Food Mail program is checked through Val-d'Or, where the closest 10,000 ft. runway to Nunavut is located. Val-d'Or's strategic location also allows trucking between Val-d'Or and the end of the road at La Grande Rivière airport. The trip can be done in one stretch, with all regulations followed.

We are convinced that abandoning Val-d'Or as an entry point and discontinuing delivery schedules threaten not only the fair treatment of retailers but also the success of the intended model.

First, a word about entry points. Currently, the system has 19 entry points. Eighteen of those points handle 25% of all cargo sent under the Food Mail Program. Val-d'Or receives and ships 75% of the entire program. We feel that this is a logical result of our geography.

The situation in the west of Canada is not the same as in the east, but the same, one-size-fits-all solution is being attempted. Arguing that entry points should be closer to the large centres to the south will simply cause costs to rise more. It is well known and clearly documented that transporting goods by road is 5 to 10 times cheaper than by air.

The air carrier that has been awarded the exclusive contract to transport goods has no aircraft based in Val-d'Or, though it does in Yellowknife and in La Grande Rivière. So that company's shuttling expenses should not be considered in the argument on costs.

We believe that the operational model that we have developed at Val-d'Or's small airport could probably not be reproduced in large centres for several reasons. First, we load the cargo onto the plane directly from the refrigerated warehouse. Preparations for loading take place in the refrigerated facility itself. Deliveries from suppliers are not subject to delays caused by heavy road or air traffic either. Our infrastructure and our practices at Val-d'Or allow the cold and freshness chain to remain intact, a chain that is often broken at the destination.

The other point that we want to raise is the issue of delivery schedules. By abandoning the current program, the advantage of a reasonable balance of delivery time and transportation costs is lost, especially for villages that come after the primary destinations. That balance is seen in freshness and in costs, but it is also seen in the frequency of flights for passengers. So small retailers and consumers are treated fairly.

The laws of the market lead us to believe that retailers with the greatest volume will get the first choice of delivery days. Costs are not the only issue. In our view, a one-size-fits-all solution to the various problems of this program in different parts of the country is not likely to achieve the objectives of the program.

For regions served from Val-d'Or, the core of this program, which has evolved over several decades, remains a fair and effective way of serving consumers through healthy competition, between carriers specifically.

We stand by the approach that we suggested as a solution to replace the current program. That is the establishment of a body whose mission would be to manage the program and to accredit the various suppliers by making them accountable by contract.

• (1555)

We believe that the department's objectives can be integrated into the structure of the current program, and we suggest that the operational advantages of the current program be considered before any replacement solutions whose effectiveness is only theoretical.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Brouillard. Thank you also to all the witnesses.

We now move to the first round of members' questions; it will last seven minutes. We will start with Ms. Neville.

• (1600)

[English]

Hon. Anita Neville (Winnipeg South Centre, Lib.): Thank you, Mr. Chair.

Thanks to all of you for being here today. Your perspective is for the most part a different one and we thank you.

We know that Nutrition North as it's being proposed will be managed solely by the retailers and suppliers, very much at their

convenience and with their decisions. We've heard some of your concerns on the potential impact.

To what extent do you think this change will enable an organization to offer lower shipping rates to retailers? One of the concerns I've heard around the table and privately is that we have to ensure that retailers don't keep to themselves whatever savings they achieve instead of passing them on to the consumers so that they will achieve higher profit margins.

I wonder if the airlines would like to comment on that.

Mr. James Ballingall: My understanding is that INAC is putting checks and balances in place and will have an audit system to ensure that the subsidy gets through to the consumer.

Hon. Anita Neville: How will the changes impact transportation organizations?

Mr. James Ballingall: You let the free-market forces prevail. Cargojet operates a fleet of 727s, 767s, and 757s. Our business model is that we're a co-loader. We operate every business night for a number of major courier companies across Canada.

Our business model works very well in the south. Our objective is to just point that north to Iqaluit. We can do that at half the cost of any other major carrier in Canada in moving all that product into Iqaluit and/or Rankin Inlet. We have a fleet of aircraft based right across Canada and those airplanes sit all day. We only operate them at night. So if you can take an asset that's already been paid for 100% and turn it north, the opportunity to save a lot of money is there.

Hon. Anita Neville: Would anybody else like to comment?

[Translation]

Mr. Jasmin Frappier (Director General, Valpiro Inc.): I will reply in French.

You are asking if consumers are going to get the subsidy. I have to say that I seriously doubt it. I believe that it will allow the largest retailers to negotiate better rates with the air carriers. Above all, they could obtain exclusive delivery days for shipping their goods.

Smaller retailers will get lower quality goods. Their shipments will come at the beginning of the week and the food will not be as fresh as it will be for the larger retailers. Eventually, the smaller retailers will go out of business because their transportation costs will be higher than those the larger retailers pay...for food that is not as fresh.

In the medium and long term, I think that the larger retailers will increase prices for consumers. As a result, the larger retailers, not the consumers, will be the ones who will reap the rewards. That is my prediction, madam.

[English]

Hon. Anita Neville: You're operating under the assumption that the small retailers will fall by the wayside. Is that what I'm hearing you say?

Mr. Jasmin Frappier: Yes, Madam, because they will have.... *[Translation]*
Parce que—

Hon. Anita Neville: Go into French.

[Translation]

Mr. Jasmin Frappier: It will not be possible for them to negotiate with air carriers and they will not have the same clout as the large retailers. In my opinion, the large retailers will get the best days. I have been in this business for 17 years and I can tell you that delivery days are really important in getting quality products in the north. If smaller retailers have delivery days that only allow them to put week-old or ten-day-old produce on their shelves, their lettuce and bananas will not be of the quality that larger retailers will have. As their transportation costs will be higher, you can see how people will go to the larger retailers to shop, and the smaller ones will die off. When only the large retailers are left, they will be able to do what they like with the prices. Unfortunately, northerners will be the ones to suffer. That is how I see things.

• (1605)

[English]

Hon. Anita Neville: What you're really saying is that there will be a consolidation of large retailers providing food to the north.

Mr. Jasmin Frappier: Yes, and they will play with the price the way they want.

Hon. Anita Neville: Thank you.

Mr. Ben Ryan: I have a comment as well.

In the case of the Yukon, we actually feel that it will be more of a case where small retailers might catch on. We are a little suspicious that some of the larger retailers in the Yukon may be a bit disinterested in the food mail program.

But in any event, you've brought up concerns that retailers may not pass on the savings they could incur in terms of subsidies directly to the customer. This is one of the concerns that the Vuntut Gwitchin First Nation of Old Crow have addressed. From their perspective, they note that the premium charged on groceries that arrive via the retail channel currently is a lot larger than that on groceries that arrive on our aircraft using the food mail subsidy, and I think a lot of that has to do with our cost structure.

We feel that one of the advantages of having the subsidy stay at the transportation level in our case is that we are a transparent organization and consumers in Old Crow can see where the costs are coming from. What I mean by that is that if we were to increase prices, it's very easy for them to see that it's happening, because the groceries are being purchased directly from Whitehorse for prices that are observable and our rates are public. Our relationship with the community of Old Crow is very strong, so they will have tons of bargaining power to voice their opinions. My father goes to the town meetings in Old Crow, so it's very hard for us to hide such a scenario.

So in our case, we feel that we can provide better prices and also some transparency. That is what the communities are ultimately looking for, because it's very hard for people in Old Crow to understand how groceries coming from Winnipeg get to Old Crow and where the costs come in. That's one of the points we have.

The Chair: Thank you. Ms. Neville.

We now move to Mr. Lévesque, for seven minutes, and then to Mr. Bevington.

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

Mr. Ryan, I had the opportunity to meet the president of your company. He is your father, I believe. Are you the only company flying cargo into Old Crow from Whitehorse?

Mr. Ben Ryan: Thank you for your question.

[English]

Yes, we are the only company. Old Crow is an isolated community of 400 people, so we are the only carrier, and we don't really foresee the market being big enough for another carrier.

The Vuntut Gwitchin First Nation are huge stakeholders in our firm, though, at 48%, and we've been in the Old Crow market for over 30 years. As I say, we're the only carrier there, but our relationship with them is such that it's far from what you would consider a conventional monopoly.

[Translation]

Mr. Yvon Lévesque: Hence your interest in keeping Whitehorse as an entry point; it lets you get fresher food by shipping it directly to the village of Old Crow, getting quality products at more affordable prices. Thank you for your answer.

Mr. Ballingall, Canada Post operates by invitation to tender. Have you ever submitted a bid, or do you intend to submit a bid to Canada Post for transportation under the Food Mail program?

[English]

Mr. James Ballingall: Cargojet was subcontracted by Canadian North on the previous bid, but as you know, Canadian North was unsuccessful in getting that. We were subcontracted to lease one of our heavy lift aircraft to fly product from Val-d'Or to Iqaluit.

[Translation]

Mr. Yvon Lévesque: Unfortunately, I have not had the opportunity to meet the Cargojet representatives at Val-d'Or.

What makes you say that you could offer a better price under the Nutrition North program, compared to what you could offer under the Food Mail program?

[English]

Mr. James Ballingall: I didn't say that it would be a better price; I said the business model in the south works very well. Those assets are paid for, so the costs we can provide—subcontract to other carriers—would be economically beneficial to them. The assets we employ down south are already 100% paid for. If you take that asset and employ it during the day when it's doing nothing else, the price we could get them would be very advantageous.

• (1610)

[Translation]

Mr. Yvon Lévesque: Mr. Frappier, explain to me why the city of Val-d'Or was chosen as an entry point for the Food Mail program.

Mr. Jasmin Frappier: The northernmost 10,000 ft. runway is in Val-d'Or. When this all started, INAC's logic was always to go to the end of the road. We have two bases, one in Val-d'Or and one in La Grande Rivière, which really is at the end of the road. The runway there is 6,500 feet long.

Another point to consider is the distance between Val-d'Or and La Grande Rivière. INAC has considered it. Truckers can get from Val-d'Or directly, without having to sleep. They have logbooks... They can do the trip in one go. A trucker leaving Val-d'Or at 5:00 p.m. will get to Grande Rivière at 6:00 a.m. the next morning. If he left from the south, he could not do that because he would have to sleep for eight hours.

Mr. Yvon Lévesque: Tell me why the 10,000 ft. runway in Val-d'Or is so important, compared to other places.

Mr. Jasmin Frappier: The runway is 10,000 feet long. So any carrier can land at Val-d'Or. The runway is very well maintained. No other is farther north. Given the shorter distance, shipping food between Iqaluit and Kuujuaq costs less.

But no company has wanted to have an aircraft permanently based at Val-d'Or, as they do in Yellowknife or La Grande Rivière. If an aircraft was based at Val-d'Or, there would be no costs from the south. I am not sure whether you understand my point.

Mr. Yvon Lévesque: I understand it very well. If people from the party in power do not understand, I am sure that they will ask you serious questions about it.

Given your experience in providing services to northern communities, can you tell me if the new Nutrition North program could end up being less expensive than the current Food Mail program, accepting that we do not know all the implications yet?

Mr. Jasmin Frappier: It is hard for me to tell you whether it is going to be less expensive, but I do know that, unfortunately, northerners are going to lose out in three ways. If I may, I will explain how. Perishables will deteriorate in quality and freshness because the air carrier will no longer be under any obligation to have storage facilities. And products will no longer have to be checked for quality under the new program.

As I explained earlier, the bargaining power that the larger retailers have will allow them to negotiate better cargo rates but, above all, better delivery days during the week, for which they will have exclusive rights. In my opinion, it is inevitable that, in the short or medium term, a number of small retailers will have to close their doors. At that point, I see consumer prices going up.

Then, in my experience, I would say that there will be fewer flights and that could have a dramatic effect on some communities. It may seem a little illogical, but I believe the number of passenger flights will decrease. Let me explain. More companies shipping cargo could reduce the number of “combo” flights, the ones carrying both passengers and cargo. Let's say a competitor ships a full load of cargo to certain communities each week. The carrier that has the contract at the moment sees that delivery as a guaranteed basic revenue. With no cargo, just a few passengers...

• (1615)

The Chair: Thank you, sir.

Mr. Jasmin Frappier: Just one more sentence, Mr. Chair.

The Chair: Go ahead.

Mr. Jasmin Frappier: ...in some cases, the service could no longer be profitable and could be cancelled.

The Chair: Thank you.

Thank you, Mr. Lévesque.

[English]

Now we'll go to Mr. Bevington for seven minutes, who will be followed by Mr. Payne.

Mr. Dennis Bevington (Western Arctic, NDP): Thanks, Mr. Chair.

I thank all the witnesses for coming here today.

This is for Chief Napoleon Mercredi or Darryl McDonald. How do you characterize how your community came to understand the changes in this program? How have you felt about the consultation that has taken place so far on this?

Chief Napoleon Mercredi: I'll start and Darryl can help me.

I know that there has been a subsidized food program for a long, long time, but we have never noticed any difference. If you look at it price-wise, I know that it was subsidized, but I agree with the gentleman there. What he said was right. He said that only some people who benefit, like the retailers or the airlines.

We're supposed to have nutritious food subsidized, but right now in Fond du Lac, in the middle of Canada, we're paying \$19 for four litres of milk. That's a ridiculous price, if you can get it subsidized like that, so you know, therefore, that somebody is making the money. At the same time that the air freight is being done, I know that I can buy four litres of milk in Saskatoon for about \$3.50. By the time I'm 400 miles north, I'm paying \$19. We do have a very big concern. There have to be changes.

I'd like to thank the committee for inviting us to have our little bit of input on this. I hope it works out for the better, because our prices are rising. We don't have any roads. If I buy my groceries in Saskatoon and have to pay freight if I'm going to send something up, if it's not subsidized, then I have to pay \$1 a pound to get it flown from Saskatoon to Fond du Lac. That's very costly, especially when you live on a reserve where there's a high unemployment rate and stuff like that.

I think this committee should take a serious look at some communities that are affected by this.

Mr. Darryl McDonald: Could you repeat the question again?

Mr. Dennis Bevington: I really want to know about your knowledge of the program and the changes to the program that have taken place so far. Are you satisfied with your understanding of how this program is going to work?

Mr. Darryl McDonald: Initially, what I understood growing up in the community, from a younger age.... As the chief mentioned, we have low-income families. At the time, when it was run through Canada Post, if you knew of the program, you took advantage of it as long as you were employed. But if you lived on a fixed income, you had no access. I don't know how you would even learn about it. From my perspective, as far as consultation goes, or an overview, what the community of Fond du Lac knows about the program is limited.

I've just recently found out that the food program was out of La Ronge, Saskatchewan, as a main point for our region. Everything is shipped by mail. If you have fresh produce sent through there, by the time it gets to Fond du Lac, it's either frozen or spoiled.

For this program, we're just learning about it now, or for a couple of months, and learning about what's being proposed. Is it several years now, a couple of years, that it has been in the process of being reviewed?

I think it is a good change, but how we can come to a happy medium is still a factor, for our community anyway. Whether we have an airline company for our region as well that services freight.... Individuals have also mentioned that they are knowledgeable about how the freighting system and passenger airlines work. We have competition now with our own company in Fond du Lac with regard to the aviation. So the costs will eventually go higher again, because you have two service delivery people, and then there is the option of whether our community members will go or whether even the local companies will be forcing themselves to lessen cost for freight.

As far as knowledge goes, I think it's slowly coming out. We're glad that we've been invited here to this session through Mr. Clarke's office.

If there are any other questions, we're here.

● (1620)

Mr. Dennis Bevington: I live in a place called Fort Smith, which is a little bit further north than you, but certainly for Uranium City, which is on the north side of Lake Athabasca, I think it's the closest road link. The retailers in Fort Smith will experience people actually chartering planes to fly in there to pick up groceries in that community, because the cost is better there to actually do that.

Now, under this food mail program, that type of entrepreneurial effort on the part of the community might well be possible if these carriers and retailers get themselves registered for the subsidy. The flexibility required by so many different communities is something that I think you might want to give some more evidence on, maybe when you have another chance during this session, or to me.

Chief Napoleon Mercredi: There's a difference between Fort Smith and Fond du Lac and Uranium City. Fort Smith has an all-weather road. It comes in from Edmonton. Where we live, it's a fly-in community and that's it. In the winter, you might drive for three months out of a year on the ice road, but the way the global warming is coming to places, the season isn't long enough. The ice wasn't thick enough last year and that was a big impact on the community.

This year we have a problem with the barging system, because our water level on Lake Athabasca dropped five feet.

There's a big difference there.

The Chair: Thank you, Mr. Bevington and witnesses.

Now we'll go to Mr. Payne.

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

First of all, I'd like to thank all the witnesses for coming today. It's an important issue that we are talking about, this Nutrition North Canada, and I thank you for your presentations today.

I'm sure you're all aware that the purpose of the Nutrition North program, as the Minister of Health has said, is to provide nutritious food to the first nations. It also ensures that they get to see the subsidy that the Nutrition North program is going to provide for them and that subsidies are no longer provided on non-nutritional items. Somebody mentioned that there will be an audit by INAC. On December 1, the subsidized items will be posted on the website for Nutrition North.

I'd also advise you that there have been names submitted for the review committee. I suspect that these will be announced shortly. I don't have the details yet. However, the people appointed to this board will be able to review what's going on with the program and provide input to make changes. It's an open process and we'll have opportunities to see how that's going to work.

Mr. Ballingall, you talked about the competition in the air industry. I think that is an important factor for providing lower-cost foods. You talked about potentially getting those products there more quickly. With Cargojet, are you looking at other opportunities besides what you mentioned in your opening statement?

● (1625)

Mr. James Ballingall: We're in discussions with some of the northern carriers about our business model. Most of the food purchased in this country is purchased in southern Ontario, around Hamilton. Our base happens to be Hamilton. We have aircraft based there during daylight hours. There are warehouse facilities and cross-dock facilities there.

Now, I know Jasmin, and I've known him for a while, but I think we all know the reason why Val-d'Or was there. Does the business model up there still work? If it does, then airlines will find a way to get there.

But what we're talking about right now is talking to the northern carriers to get the product from southern Ontario, where most of it is purchased, into Iqaluit as quick and as fresh as we can. We can move it from Winnipeg, Edmonton, Vancouver, or Montreal to Rankin or Iqaluit, but in this example that I'm giving you right now, it would come from southern Ontario, from Hamilton, where the food originates and it's in its freshest state. We can get it up there the same day, into Iqaluit, which is where about 70% of it is going. The rest is going to the 12 communities on Baffin Island. That's the most cost-efficient way to do it.

I happen to have a lot of experience up there. I've been in every community in the north. I've seen 17 people in a one-bedroom house with one bathroom. I know what's needed there. The money the government can save here, you can reinvest in other desperately needed health and nutrition facilities in the north. That's really what we're talking about.

Mr. LaVar Payne: Thank you.

Have you had the opportunity to have some input with INAC in consultations on this process?

Mr. James Ballingall: We've had a number of sessions with them.

Mr. LaVar Payne: Okay. From what I've seen and heard from other carriers, the competition aspect is going to help to actually reduce the cost of food.

I'm not sure who wants to answer from Valpiro Inc., but in terms of the opportunities for competition in air to provide service for nutritional goods to the north, do you see an opportunity to reduce costs as well as ensure that the nutritional food gets to the northern communities as needed and in a fresh state?

[Translation]

Mr. Richard Brouillard: Do you want to answer, Mr. Frappier?

Mr. Jasmin Frappier: I'll give you an example of what happens to perishable goods bought in Quebec in one day. For instance, a food wholesaler buys food in Montreal in the early morning. Then, the wholesaler from the Abitibi region drives his truck to his warehouse. Overnight, the food is prepared for each community, each distributor and each retailer and is delivered the next morning around 5 a.m. to Valpiro.

All the food must be ready for delivery by 11:30 a.m. We have 22 people working on getting everything ready. Then, we take our food, which is very fresh because it arrived from the distributor the previous day, and we load it directly on to the plane. I can assure you that the food is very fresh when it arrives in Iqaluit or Kuujuaq.

You talked about savings. A specific change could be made to help save money. I'm talking about having an airplane in Val-d'Or on a permanent basis. There would be nothing to pay for sending an empty aircraft from the south—from Ottawa or from Montreal—to Val-d'Or. Many other cities have adopted this approach, and we're wondering why the same is not done in Val-d'Or. I hope this answers your question.

• (1630)

[English]

Mr. Richard Brouillard: May I? I'd like to try to answer directly to your question about the competition.

Mr. LaVar Payne: Yes.

Mr. Richard Brouillard: The entry point and the competition of our industry, I think are two somewhat different items. The basic principle in transportation is that obviously you need to have the least mileage possible with the airplane, with air, and better still with the sea, when that's possible. That's item number one.

So having an entry point and mixing it up with the problem of the competition in air, I think are two different things. Because the competition can continue. As for who gets the transportation from Val-d'Or to the north, for example, it should be left to competition. It should be very open, in fact, and making sure that everybody can go there.

The point is that you have to start at one point. We think the best point to start is where you have the least costs. Air travel costs more than land.

The Chair: *Merci.*

Thank you very much, Mr. Payne.

Now we'll go to the second round.

Members, I think we're going to try to go through until about five o'clock. We do have some committee business to do. I'll see how we make out in terms of time.

[Translation]

Mr. Bélanger, you may start the second round of questions.

Hon. Mauril Bélanger (Ottawa—Vanier, Lib.): Thank you, Mr. Chair.

I am not a regular member of this committee, so I hope you'll forgive me if my questions are somewhat naive. I want to try to understand the basics involved in this issue. The program's objective is to ensure that nutritious food gets to the northern communities at a lower cost, right? I want to understand why four litres of milk cost \$17 or \$19 in the north, while, a few hours by plane to the south, the same amount of milk costs \$3.50. Can someone explain the logic behind this to me?

Mr. Jasmin Frappier: I have been faced with this reality for 17 years, and I still don't understand it. I will tell you one thing. INAC is doing very good work, but the subsidy provided for the four litres of milk does not seem to actually go into lowering the price of milk. It appears to apply to all products, to everything from Coke to other products. Unfortunately, there is no monitoring of what the subsidies are applied to.

Hon. Mauril Bélanger: If my understanding is correct, some are suggesting that the subsidy should be applied to the transporter.

Mr. Jasmin Frappier: No, to the retailers.

Hon. Mauril Bélanger: So, the subsidy is currently applied to the retailers?

Mr. Jasmin Frappier: No, currently, it is applied to the transporter.

Hon. Mauril Bélanger: And it would go to the retailers under the new program?

Mr. Jasmin Frappier: That's right.

Hon. Mauril Bélanger: If it went to the retailers, would it be specified for which foods the subsidy was intended?

Mr. Jasmin Frappier: Unfortunately, I discussed this very matter with INAC officials, and I was told that they cannot monitor the retailers.

Hon. Mauril Bélanger: No, but we know that the nutritional value of a bottle of Coke is very different from that of a litre of milk.

Mr. Jasmin Frappier: I agree with you.

Hon. Mauril Bélanger: Does the program not take this into consideration?

Mr. Jasmin Frappier: They will subsidize milk, but they will not control the price of a litre of milk. They tell me that they cannot control the retail price. I looked into it because I also don't understand why, after so many years, there is no fixed price.

Hon. Mauril Bélanger: Mr. Chair, I feel a little less silly and naive, since Mr. Frappier, who has been working in this field for several years, doesn't understand either. Could our research officers perhaps explain this to me?

If there is a program for subsidizing food transportation— and milk being possibly the most nutritious food—what is the rationale for charging \$17 for four litres of milk? I think that's what you said. How can we explain this?

If this is really the cost of milk in the north, I believe that the program is not working and that it must be revised. Could one of our research officers explain this during the time allotted to me?

[English]

The Chair: I'll take a stab at it. What's being envisioned here, really, is a complete shift of the subsidy, only to perishable foods. Whereas the old program covered all of the items that were inspected and sent through the food mail program—some of which were non-perishables—this will be exclusively.... It's a higher dollar amount, \$60 million, that will be spread across all of the perishable items, but, Monsieur Bélanger, it will be up to the retailer to demonstrate that they are putting the subsidy on the perishable food items through communicating in-store what that subsidy is.

Hon. Mauril Bélanger: Mr. Chairman, I'm not trying to put you on the spot here, but will the retailer be able to apply some of that subsidy to soft drinks that are not perishable and that are not—

• (1635)

The Chair: No.

Hon. Mauril Bélanger: But yet I'm hearing from our witnesses that a bottle of Coke or Pepsi or whatever other soft drink—I'm not picking on Coca-Cola here—is less expensive than a litre of milk. How can that be?

The Chair: That's the current situation. Once the program is implemented, the second plank of Nutrition North Canada is to direct the non-perishable shipments by way of the lower-cost transport modes—winter roads and so on.

Hon. Mauril Bélanger: Okay. Here's my last question. Will there be a sort of list of which items are considered perishable and which are not?

The Chair: *Oui.*

Hon. Mauril Bélanger: Have we seen those?

The Chair: The list is coming out on December 1. The subsidy rates and all—

Hon. Mauril Bélanger: So it will come out before you conclude your study.

The Chair: That will be a topic of conversation *après 17 heures.*

Hon. Mauril Bélanger: Thank you, Mr. Chairman.

[Translation]

The Chair: You have only 15 seconds, Mr. Lévesque.

Mr. Yvon Lévesque: First, I have a point of order.

You said that there is no monitoring of products eligible under the Food Mail Program. I would like to remind you that Canada Post representatives told us that the food list was put together by INAC.

The Chair: Yes, that's absolutely correct.

Mr. Yvon Lévesque: They also said that the Food Mail Program was subsidizing these products. The list has now been scaled back for the Nutrition North Canada program.

Mr. Frappier, if fewer food products are eligible under the Nutrition North Canada program, do you think it will be as good as the Food Mail Program was?

The Chair: Save your question for later on, Mr. Lévesque.

[English]

I think that will help answer Mr. Bélanger's question.

We'll go to Mr. Clarke and then come back to Mr. Lévesque.

Mr. Rob Clarke (Desnethé—Missinippi—Churchill River, CPC): Thanks, Mr. Chair.

I thank the witnesses for coming in today.

I thank the Chief Mercredi and Darryl McDonald for coming in. It's a long haul to get here with all the communities you have to fly through.

In previous discussions we've had, you mentioned the Northern Store. We know how much of a cartel the Northern Store is in communities across northern Canada. We see what the prices are for certain non-perishables. We look at the Coca-Cola products, the Pepsi products, and all the products that are in the stores. Mr. Bélanger mentioned that milk is a lot more expensive than pop.

We talked about Nutrition North and all of the items that will be posted on the website on December 1. For the study we're doing here, can you give me information on further costs and what types of steps you're taking in trying to promote healthier nutrition in northern Saskatchewan, especially with Fond du Lac being one of the most northern communities in Saskatchewan? You mentioned in the airport about the community forming a co-op, so I wonder if I can get some further elaboration there.

You also mentioned that you're looking at chartering a plane to go once a week into northern Saskatchewan to haul in the non-perishables and then, as the plane is leaving, offering lower rates for people to go to the cities. Can you add some more detail on that topic for this committee, please?

Mr. Darryl McDonald: The Northern Store in Fond du Lac has been operating for many years—or centuries—under the former Hudson's Bay Company. The North West Company is now the only company operating there.

A year and a half ago, we analyzed the Arctic Co-op model and looked at competition there. It doesn't matter which model we look at—Northern Store or Arctic Co-op—we still get the same product. We may have some savings on the types of products we buy, especially nutritious food.

Then we began to explore air mail or air freight. As this gentleman said, we could further explore reducing overhead costs in delivery and freight now that we know there is an airline company out there. Arctic Co-op's main entry point to deliver products would be Saskatoon. Through the Saskatchewan Co-operative Association, Saskatoon would be the main entry point for its co-op affiliates.

From there, we looked at the products we will bring into communities based on our needs. It will still be comparable to what Northern Store offers. There's still the whole issue of freight costs, based on the five business models we looked at under the Arctic Co-op model and on the types of products we will be bringing in.

At the end of the day, there will be two stores offering the same types of incentives and products, but we still wouldn't get this type of nutritious food, I would assume, based on that competition. Now I hear more stories about other companies out there that could help us with reducing overhead costs. That could be a viable approach that we would have to discuss further with Arctic Co-op once we eventually bring it into the community.

• (1640)

The Chair: You have about a minute and a half left, Mr. Clarke.

Mr. Rob Clarke: I'd like to get some clarification in regard to the northern airline, but first of all, on the building of the co-op store, how much have you looked into the storage of non-perishables such as baby formula, diapers, toilet paper, and laundry detergent to lower the costs?

Mr. Darryl McDonald: We're looking at models of 6,500 to 8,000 square feet to bring more product into the community. Right now in the community, we are lacking products like baby food and so forth.

[Translation]

The Chair: Thank you, Mr. Clarke.

You may now ask your question, Mr. Lévesque.

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

Since the question was asked inadvertently, could you give me a quick answer to the question I asked earlier, Mr. Frappier?

Mr. Jasmin Frappier: Could you repeat your question, Mr. Lévesque?

Mr. Yvon Lévesque: If we consider the current prices under the Food Mail Program, keeping in mind all the products eliminated from the list on October 3, is the Food Mail Program still a better way of transporting goods than Nutrition North, if we compare the lists of food products to be shipped?

Mr. Jasmin Frappier: I think that, based on the current delivery schedules, the Food Mail Program is much better developed and makes it possible to deliver food to all communities.

For instance, the delivery schedules allow for equality in the delivery of food to all retailers. Currently, all the retailers that are not located in a community receive their purchases on the same day, according to the type of product shipped out. Everyone is equal under the program. All retailers are equal and benefit from the same product freshness, since the food is delivered at the same time. In addition, they all pay the same transportation rates.

The new program will take away from this equality.

Mr. Yvon Lévesque: Thank you.

Mr. Mercredi, good afternoon.

I don't know if you're related to Ovide. I knew Ovide Mercredi very well.

I'm looking at the information you provided, and you're saying that the cost of groceries is very high. I understand! If you're bringing in food from La Ronge directly by plane... The prices they are charging you... You are 500 km away from La Ronge. However, you are saying that you would be better off bringing in food from Saskatoon, which is 1,000 km away by air. According to what Mr. Brouillard said earlier, the flight time and the distance covered are both factors that raise the costs.

If food was sent from Saskatoon, for instance, and delivered to Fort Smith—the distance between the two locations is 200 km—through Canada Post, which solicits bids and awards contracts to the lowest bidders based on certain criteria of freshness and delivery time guarantees, would you feel that your interests were better protected and that you would be in a position to get better rates?

• (1645)

[English]

Mr. Darryl McDonald: Right now, I think the practice that Northern Store has is that fresh products are shipped by winter road or seasonal road from La Ronge or elsewhere. The majority of the food comes from Winnipeg under the Northern Store concept. Then everything is delivered to Stoney Rapids. Any other produce or products that may be perishable will be flown from Stoney Rapids to Fond du Lac. That's the standard practice in the winter—and sometimes in the summer.

Under the Arctic Co-op, just to clarify, under that concept, the point of entry is Saskatoon. Based on their model, we haven't brought Arctic Co-op in yet. We're in discussions and looking at that model to see if we can, because it would be a community-owned business. Normally the shareholders would be the community members, whereas Northern Store just funnels \$3 million to \$7 million a year out of the community and we don't get anything back from that.

[Translation]

Mr. Yvon Lévesque: Thank you.

Mr. Ballingall, given your capacity to provide services, I still don't understand why you didn't place a bid with Canada Post to be one of its main transporters, and not a secondary transporter, a subcontractor of a large company.

Your company is perhaps as large as First Air, but did you comply with the Canada Post instructions and specifications when you placed a bid for a transportation contract with that body?

[English]

Mr. James Ballingall: Mr. Lévesque, as I said earlier on, we were subcontracted by Canadian North to deliver the final product to all the communities in the north. You need a substantial infrastructure in place: warehousing and a transportation network. We didn't have that at the time, so we just provided an aircraft, based on a model similar to what I'm talking about today. Using a cross-utilized asset, you can offer a much lower unit cost.

The objective there was to lower the unit cost, the per pound cost, of moving product from the south to Iqaluit and/or Rankin Inlet, so we bid in cooperation with another carrier the last time.

[Translation]

The Chair: Thank you.

Thank you, Mr. Lévesque.

[English]

All right. Now we'll go to Mr. Payne, and then I don't have any others.

Mr. Bevington, did you want another question as well? Okay. We'll go to Mr. Payne. He'll be followed by Mr. Bevington.

Mr. LaVar Payne: Thank you, Mr. Chairman. My question is through you to our witnesses here.

There are a couple of points I probably should have made earlier on in terms of the Nutrition North Canada program. As the health minister indicated, it's the health of the first nations people she was really concerned with. There are obesity and diabetes and those kinds of issues, particularly because of the fact that you can get pop a lot cheaper than you can get milk—and I won't use any particular brand name. I was totally shocked to hear this. I just found it totally unbelievable that pop could be brought in more cheaply than milk could, which is obviously a nutritious food versus the pop.

The other comment I'd like to make is on the subsidy rates, which we know are going to be out on December 1. That is for air freight, so we're going to see those subsidy rates on the nutritious foods, the fresh foods that are needed for the north. As I understand it right

now, the products that are not going to be subsidized are already on the website. That's why we've seen differences in terms of coffee and diapers and a few other things.

I'd just like to go back to what my colleague was talking about.

Mr. McDonald, I think you talked about the \$3 million to \$7 million, was it, that was leaving the community? If in fact you did have a warehouse there, would it potentially keep that money in the community?

• (1650)

Mr. Darryl McDonald: Yes. I believe under the Arctic Co-op model, the income that we get from that would continue to revolve within that whole Arctic Co-op concept.

Mr. LaVar Payne: So what would that do for the community, then?

Mr. Darryl McDonald: There might be more access to better-quality foods rather than the spoiled food from other retail, which exists right now.

Mr. LaVar Payne: So certainly that would be very beneficial to your people there.

I guess in terms of the other foods or the other products and some of the canned goods that are going to be shipped, those will no longer have subsidies. I wonder if somebody could tell me—maybe Ben—about what happens with those foods. You talked about Old Crow being a community of only 400 people, I think?

Mr. Ben Ryan: Yes. Old Crow is a community of 400 people. The interesting situation there is that they just recently had an election and half the votes came from Whitehorse, in fact, so we're sort of concluding that there is a ration of one to one for residents of Old Crow and their relatives in Whitehorse.

There are two different streams by which the perishable foods—versus non-perishables—can get to Old Crow at an affordable cost. For perishables, as we've identified, it would be far cheaper for us to fly them, with the subsidy residing with us so that customers could find the cheapest and most competitive grocer available. It's very similar to the model that James is suggesting, in which you provide a direct link from the competitive market to the village.

But in the case of Northern Store, our dry goods rate, not even food mail, is actually cheaper than the food mail type B rate that currently exists, so they can actually get non-perishable goods up there at a very competitive rate given our current cost structures. Actually, that's probably the case with a lot of airlines. That's probably why you see the disparity with things like Coke being so cheap. It's because they can be shipped in bulk and they can be stored for long periods of time and shipped under favourable conditions. When you bring in those economies of scale, the airline can reduce the cost you charge.

So for the non-perishables in our case, they will probably continue to flow primarily with Northern Store shipping them just as dry goods at the preferable rate we've given them.

Mr. LaVar Payne: Okay. So you said that it's highly unlikely there would be any competition into Old Crow?

Mr. Ben Ryan: It's highly unlikely. The market itself is not lucrative enough. Furthermore, I would challenge you to find a northern carrier who can say that their cost structure is comparable to southern carriers of similar size. Our cost structure is low, such that it's very hard for other carriers, other than a southern carrier with a bigger aircraft, to come in. But the market's not lucrative enough that you would ever...

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

I also thank you for correcting the record that the eligible food list is indeed available; it's the rates on a per community basis that will be published on December 1. Thank you for that.

Just as a note for the record, Mr. Ryan, Old Crow is the one community in the coverage area here that has neither the sea-lift capability nor the winter roads, and that's why it's in this unique situation for the Yukon.

We're going to go to Mr. Bevington for five minutes, and I think he will ask our last question.

Mr. Dennis Bevington: Thank you, Mr. Chair.

I can see that we're really not going to understand the full impacts of this program until a couple of years into its use. By opening it up to this competition, I think you're going to see many, many things fall out of it, and whether they're going to be good or bad is very difficult to determine at this juncture.

At the same time, there needs to be some surety for the airline industry to deal with this. I'm recognizing that more and more as the discussion goes on here, Mr. Chair.

I understand where you're coming from, Mr. Ballingall, but your ability to provide service other than to major centres is completely limited, so whatever you brought to Iqaluit would then have to be carried by First Air or by another carrier to the smaller communities. You'd have a two-transportation hub there. With First Air, would that mean you would double up the cost of transportation?

Rather than First Air flying out of Val-d'Or directly and continuing to the smaller communities with their own carriers, by having two carriers, as you're proposing, would the total transport bill be higher?

• (1655)

Mr. James Ballingall: Under the existing food mail program today, approximately 70% of the food mail that goes to Iqaluit is destined for Iqaluit; the other 30% goes up island, whether it's to ACL or Northern Store. Both carriers, Canadian North and First Air, have large infrastructure in place in Iqaluit.

With our model of cross-utilizing an aircraft to get the bulk of the product into Iqaluit, we would provide both of them with substantial or significant cost savings. They wouldn't have to go out and acquire a big asset like a 767. We already have it and it sits all day. That airplane sits all day and does nothing, but 100% of the cost is covered on the nighttime courier. So we are presenting an option to save them a lot of money by cross-utilizing that aircraft during daytime hours; otherwise, it wouldn't be doing anything. We can give them significant savings.

Mr. Dennis Bevington: You have good reliability, but you're flying on southern routes. Having been through Rankin Inlet a number of times in my life and having been stuck there, and knowing the difficulty of flying sometimes, where would food mail fit in your priorities in comparison with your nighttime flying?

How would you ensure that you would be able to make...? If you have a commitment for your plane at night and you can only use it in the day for food mail, how is that going to work out when, in many cases, you have problems with weather? It could be in the morning; it could be in the afternoon. The weather situation there would make your scheduling very difficult.

Mr. James Ballingall: I'm very familiar with it, but because we only sell time, we have a number of spare assets. We call them "hot spares", with pilots sitting in the cockpit ready to go should there be a mechanical failure somewhere. We would do the same thing with weather, so we do have backup assets available for that exact example you're talking about.

The Chair: You have one minute and a half.

Mr. Dennis Bevington: Okay. I have just one other item for Chief Mercredi.

Could you perhaps describe how important country food is to your community? Because that's certainly something that we've heard tell of within this program, that we want to see the increase of, and I certainly support that in most northern communities. Maybe you can just describe how important that is to your community.

Chief Napoleon Mercredi: Yes. The wild food in my community is very important because there is a proof there. My dad and my mom are still living. They're both 80 years old. All they eat is caribou meat and fish, and all the food that they use is the tea and sugar from the store, and they're way healthier than I am. They're out there on the trapline right now.

I think the problem is that since the TV days it's getting to the point where it's all getting to be modern, like Subway. Even the kids right now, at 12 years old, they're affected with diabetes. It's very sad to see that. A community like that could even subsidize their own hunting trips, like a caribou hunt. We're not asking for a whole lot of money, but to me, if we can start supplying wild food to the community, it would be very beneficial, not only to Fond du Lac, but to the surrounding communities too.

The Chair: *Merci*, Chief.

Thank you Mr. Bevington.

Now we have time for three short questions. I have Mr. Clarke, Mr. Bélanger, and Mr. Lévesque, for just two minutes, though. Then we'll have to wrap this up, because we have some committee business to do.

Go ahead, Mr. Clarke.

Mr. Rob Clarke: Mr. McDonald, you mentioned that the money going out from the Northern Store is \$3 million to \$7 million. If the co-op was up and functional, how much time would it take to pay that off, for the building plus the storage area?

• (1700)

Mr. Darryl McDonald: Well, right now, we are challenged with the grants, fundraising for that aspect, and there are three or five models that we looked at. The first one could be paid off if we had a full subsidy of \$1.8 million over a three-year time span; we could have that community-owned business. The worst case would be a five-year, where we finance it fully through the first nation, through our local bank, but that will take a 10- to 25-year process of paying back and ownership. But if community members don't see the returns immediately, then I think that whole concept will fall apart.

Mr. Rob Clarke: For Air North, just in regard to that, have you addressed the issue of competition? Also.... Well, first answer that question, because I'm not sure how long I have.

Mr. Ben Ryan: Okay. Competition in what sense? Competition from Whitehorse to Old Crow? Like somebody else coming in...?

Mr. Rob Clarke: With the airlines.

Mr. Ben Ryan: Okay. I don't really understand, because we're the sole carrier on that route. We feel like there's not really any competitive advantages to competition coming in.

Mr. Rob Clarke: Okay.

Have you addressed the issues of the subsidies in your report?

Mr. Ben Ryan: In what sense? The monetary amounts or the type of subsidies?

Mr. Rob Clarke: Both.

Mr. Ben Ryan: Okay.

We've illustrated what type of subsidies we were achieving under the old system given our cost structure, given what Canada Post was being charged on our routes, and then given what the subsidies were set at. These are our estimates.

But the primary argument has to do with where the subsidy resides, and the report just provides you with the information on the company, the cost structure, and our ability to deliver low-cost service to Old Crow.

The Chair: Thank you, Mr. Clarke.

[Translation]

Mr. Bélanger, you have two minutes.

[English]

Hon. Mauril Bélanger: Thank you, Mr. Chairman.

I want to thank Mr. Payne for the information. I understand that there is a list of items, but we'll know on December 1 how much they can be subsidized.

My question, then, is this. Is there a list—and could there be a list, if there isn't one—of products that cannot be subsidized, a list of products that are not eligible, such as, for instance, soda pop?

Mr. LaVar Payne: I think those are already on the website, Mr. Bélanger.

Hon. Mauril Bélanger: That list does exist?

Mr. LaVar Payne: Yes.

The Chair: But it does raise the question, as one looks ahead with this program, of the issue around what items should be or should not be on that list. This is something that I'm sure will evolve, but it will be a subject of concern for this committee.

Hon. Mauril Bélanger: Thanks.

[Translation]

The Chair: Thank you.

Mr. Lévesque, you can ask a short question.

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

I won't ask for a moratorium right away; I could perhaps do it when the report is being drafted.

Mr. Frappier, we were just looking at the bids that were placed. You mainly deliver from LG2, with Inuit Air, and from Val-d'Or, with First Air.

What are First Air's delivery points, for instance, and how far north does that company deliver?

Mr. Jasmin Frappier: First Air leaves from Val-d'Or and goes to Iqaluit and Kuujuaq. Then, it loads products and goes as far as Pond Inlet and Grise Fiord, to name only a few. The products are taken from Iqaluit and then distributed through other channels.

Mr. Yvon Lévesque: Is that part of the original bid, or do you work based on contracts?

Mr. Jasmin Frappier: Under the current program, the price per kilogram is the same everywhere, be it in Grise Fiord, Pond Inlet, Iqaluit, Kuujuaq or Salluit.

Mr. Yvon Lévesque: However, First Air must submit a price to Canada Post to obtain contracts in various locations, right?

Mr. Jasmin Frappier: Yes, that's right.

Mr. Yvon Lévesque: To service other communities from Iqaluit, does First Air bid according to the basic price? Or could it service these communities from Iqaluit, as a subcontractor, while maintaining the same price?

• (1705)

Mr. Jasmin Frappier: It could certainly not do so for the same price. If First Air were to deliver only from Iqaluit, it would have to set a much higher price, since it would be losing the transportation charges from Val-d'Or to Iqaluit.

The Chair: Okay! Thank you.

Mr. Yvon Lévesque: Do you agree?

The Chair: I do!

Voices: Oh, oh!

[English]

The Chair: Thank you very much, witnesses, for your presentations and your responses this afternoon.

Members, we're going to suspend, and then we will be in camera for our consideration of next steps on this study. We'll see you back in three minutes.

[Proceedings continue in camera]

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