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# Standing Committee on Agriculture and Agri- Food

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EVIDENCE

**Wednesday, April 21, 2010**

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**Chair**

**Mr. Larry Miller**



## Standing Committee on Agriculture and Agri-Food

Wednesday, April 21, 2010

• (1530)

[English]

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

Before we go to our witnesses, we just have a bit of housekeeping to do.

This is to deal with our travel, which is starting next week. The original travel request didn't have all the locations on it. This is simply about the logistics. We didn't have the exact places to travel to in the east, and those are now all on there.

Wayne and Mark, I understand you guys had a lot of input into this.

Basically, there's a liaison committee meeting tomorrow at 1 o'clock, and if we don't deal with this today, then obviously we can't travel to those spots.

I'd entertain a motion to adopt this. It's for a total amount of \$86,969.

**Hon. Wayne Easter (Malpeque, Lib.):** I so move, Mr. Chair.

**The Chair:** Is there any discussion?

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

**The Chair:** Thank you.

We'll now move to our witnesses.

Thank you very much, all of you, for being here today.

I don't know, Mr. Wrobel, whether all the banks are going to have a presentation, or are you just going to do one?

**Mr. Marion Wrobel (Director, Market and Regulatory Developments, Canadian Bankers Association):** No, Mr. Chair, I'm going to read some opening remarks. And we are here to answer your questions.

**The Chair:** Very good. We're looking forward to it.

I'll mention in advance that I have to leave at about 4:30. Vice-Chair Mr. Eyking will be filling in. My apologies; there's just something that I have to deal with.

At any rate, go ahead.

**Mr. Marion Wrobel:** Thank you, Mr. Chair.

On behalf of the Canadian Bankers Association, its 51 members, and its 500,000 employees in Canada, I would like to thank you very

much for the invitation to speak to the committee on the subject of young farmers and the future of farming.

My members are here to answer your specific questions, so I will keep my comments brief. I will, however, take a moment at the outset to put the banking industry and its association with young farmers in the wider agricultural and rural community into some perspective.

The banking industry believes young farmers are an important part of the agricultural and rural community success story. Indeed, we are seeing a resurgence of interest in agriculture from the younger generation of farmers. While bright and determined, these younger farmers need more support and advice than do experienced producers. At the same time, both the new and older generations of producers need to recognize the new reality of agriculture, wherein they might be part of global supply chains and need to hedge international risks.

Through our roughly 2,100 rural and smalltown branches, we supply the tools, advice, and support to help them, their families, and their communities. These include one-on-one interactions around business plans, as well as ongoing business seminars at which banks provide access to expert business speakers. On the business side, banks provide deposit and operating accounts, insurance investments, and financial advice, as well as operating term and mortgage loans. I will elaborate on a couple of these products in a moment.

Banks also work with producers on succession planning to ensure a viable transition to future generations of farmers. Indeed, the industry is developing customized products for succession and transfer of ownership.

On the personal side, we help rural customers save for their children's education and their own retirement through GICs, stocks, bonds, and mutual funds. Banks provide specialized advice, lines of credit, loans, mortgages, and everyday banking needs such as deposit and savings accounts. In short, customers in rural Canada have access to the same services and prices as do customers in Canada's largest cities.

Specifically for young farmers and those contemplating farming, we provide sponsorship and support through a number of local and national initiatives. Indeed, my members would be happy to discuss their support for Outstanding Young Farmer programs, 4-H Clubs, and university programs to support agricultural youth in entrepreneurship, farm succession seminars, networking opportunities, scholarships, and the Royal Agricultural Winter Fair.

Our bankers understand the importance of access to credit for any farmer, and particularly for young farmers just starting out. Our lending decisions are based on an assessment of the borrower's ability to repay the loan. We make decisions on an individual case-by-case basis, but it should be realized that those decisions are balanced with more macro-conditions, such as the prospects for the business sector the borrower operates in, economic prospects in general, the cost to the bank of raising funds, etc.

In light of these considerations, what have been the results? About 18% of the total funds lent to SMEs by banks across the country are dedicated to the agricultural sector. That's almost one dollar in five, and it reflects the long-standing commitment of banks to this sector. Throughout the period of global financial turmoil, Canadian banks continued to provide financing to their agricultural clients. From the first quarter of 2008 to the end of 2009, the amount of credit we made available to the agricultural sector went up every quarter and increased by a total of more than 7%. Over the longer term, and consistent with our focus on prudent and responsible lending, bank credit has expanded in line with the agricultural sector's growth. Between 2001 and 2008, the provision of bank credit has been consistent with and appropriate for growth in this sector, and this largely reflects the fact that most of bank lending is for the purposes of working capital.

Canadian banks utilize the same prudent lending practices and excellent risk management systems in agricultural lending as they do in every other line of business. These practices and systems have led to a banking system that is today internationally recognized for its safety and soundness. As the experiences in other jurisdictions show, poor risk management is not just bad for lenders, but bad for borrowers as well; its negative effects extend into rural communities generally, and even into the broader economy.

The agricultural community has access to a highly competitive financial marketplace. Banks, credit unions and caisses populaires, Farm Credit Canada, finance companies, provincial government agencies—all compete to provide credit to the sector. About 70% of lending comes from private sector institutions, and banks provided 38% of total farm credit in 2008.

• (1535)

Also important is the nature of the financing that banks provide. Two-thirds of bank lending to the sector is non-mortgage credit, working capital, and operating lines of credit, making banks the largest providers of this type of credit with \$14.7 billion outstanding in 2008. This type of financing is more complex than lending against assets, so it requires the bank to truly understand its customers and to work closely with them over time.

Governments also play an important role in the agricultural sector, and banks are important partners with government. Sometimes we are the conduit by which programs are delivered. Sometimes we provide expert advice with respect to some of the key features in the design of new programs. Recently, the industry has been consulted early in the process of program design, has provided financial and business expertise, and has implemented agriculture-specific government programs. All of this has worked to the benefit of producers, lenders, and the government.

I'll give you a couple of examples.

Banks participated in the evaluation of FIMCLA, and were instrumental in successfully rolling out CALA this past summer on very tight timelines. CALA is a program that assists young farmers. Since it was passed last June, banks have increased the volume of lending by 61% and the number of CALA loans by 35% when compared to FIMCLA.

Banks provided expertise to government officials who were designing the hog industry loan loss reserve program—HILLRP—to assist struggling hog farmers. The CBA and member banks were in regular communication with government officials, stakeholders, and/or customers on this program both during its creation and its implementation. We started speaking to our customers about government assistance to hog farmers even before completing program development. These actions resulted in banks accounting for almost half the volume of HILLRP loans made.

These agricultural initiatives are in addition to our work with the government on a broader range of credit initiatives such as BCAP, business credit availability program. We look forward to continuing this positive relationship with government.

The one overarching theme related to our support for young farmers, their families in rural communities, and our work with the government and stakeholders is the importance we place on building and maintaining relationships. Banking is about more than simply lending money. It's about relationships, and nowhere is this more evident than in the agricultural sector.

These relationships have helped us work with our customers through the inevitable peaks and troughs that come with working with this sector. The past decade has seen farmers confront BSE, avian influenza, drought, floods, H1N1 virus, and country-of-origin labelling. When these inevitable events occur, we work with farmers, taking into account their individual situations to find solutions that are sustainable and in their best interests. Sometimes banks need to have tough conversations with their clients, so that farmers can make decisions that preserve the capital of the farming operation. The banking industry's work during these events is testament to the importance we give to the sector and our interest in contributing to its long-term viability.

On this point, I'd like to refer to a survey of SMEs that the CBA conducted during the height of the financial crisis. Let me just point out that these were SMEs in general, not just agricultural producers. Eighty-nine percent of SMEs who approach their bank about their credit needs said their bank was willing to work with them. This does not happen without a strong bank-client relationship.

The key to the strong relationships we have with farmers is understanding the circumstances. Banks hire individuals with a P.Ag. designation and university graduates with an understanding of the agricultural sector. These individuals are account managers and specialists who advise farmers on such matters as farm loans, economic forecasting, farm business planning, and general farm management. They serve their clients through non-traditional means and modern technology. They employ cars and laptops to meet with clients at their farm in order for them to spend more time on their businesses and with their family. Banks dedicate resources to educate them through programs such as the Olds College bankers school. These account managers and specialists often move up to agriculture specific credit and risk adjudication positions.

In short, bankers live and work in rural communities and have the skills needed to support their agricultural clients. They donate both their business resources and considerable personal time to supporting local agricultural associations, clubs, and events. We have a stake in seeing farmers in rural communities thrive.

• (1540)

Thank you for the opportunity to meet with you on your study. I've kept my opening remarks short to enable my members to elaborate on issues I have raised here and on specific initiatives for the agricultural sector, particularly young farmers.

We would be pleased to answer any questions you have.

**The Chair:** Thank you, Mr. Wrobel.

We'll now go to Mr. Easter for questioning, for seven minutes.

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

I thank you folks for coming in.

I guess the key to being able to get young people to enter into the industry is profitability at the farm gate. That's the key. Part of it—we always hear the line—is that you have to be competitive. Yes, you do, but our problem seems to be that in Canada we don't have competitive policy. The government last year, in the worst hog crisis we've had in Canadian history, with the beef industry not far behind, with all kinds of troubles in the potato industry, actually paid out pretty near \$900 million less under the safety net programs.

I'm wondering about your discussions with the government, in terms especially of the hog program and the beef program. We've heard consistently from farmers that what they want done with AgriStability is to change the trigger mechanism and do away with the viability test—in other words, go to a different formula than one taking your low year and high year out and then averaging the difference—which denies about two-thirds of Ontario farmers access to the program in the beef industry.

Secondly, they've suggested that the government change the reference margins to allow a payout, because the money in the safety net program paid out by the government was, as I said, \$900 million less last year and was a further shortfall from the year before. That's the money that would meet the trade agreements that could have gone into farmers' accounts to assist them.

Has the government discussed any of those proposals with you? They are coming from the hog and beef sector.

**Mr. Marion Wrobel:** Our focus over the last year or two has been on, for example, the design and implementation of the CALA and the design and implementation of the HILLRP. We are in the process of putting in place the AgriInvest accounts. That's been a focus of our discussions with officials.

Mr. Chair, in terms of some of the points that Mr. Easter raised, I would say that our job is to work with government to make sure that the policies and programs they put in place are as effective as possible. That's what we try to do—make them work and ensure that the policy objectives are met, to the extent that we're involved in those programs. If there are elements of those programs that make it difficult for them to be viable, we will deal with government, but the design of programs as such is a matter for government.

I don't know whether any of my members want to comment on that.

• (1545)

**Hon. Wayne Easter:** That's okay. I understand where you're coming from. I just make the point that if the government would have used the safety net programs instead of entrenching their position, if they would have used the safety net programs, to actually design them—still within the rules—to actually get from \$900 million to maybe \$1.23 billion out there, I think it would have substantially enhanced the bottom line of farmers in both the hog and the beef industry. Then maybe some of those farmers...

As I understand the HILLRP program from talking to hog producers, when they go in to see you, quite a few of them don't meet the viability test within your operations, which is different from the viability test under AgriStability. In any event, they're not considered viable operations. Whereas the year before a hog barn might have been valued at \$800,000, you now, within the banking system, value it at considerably less.

One of the complaints we have heard—and you can answer this—on banks' performance with the HILLRP program is that you have increased the interest rate substantially. Some are telling me it's by up to 5% and 6% over normal—prime plus 5% or 6%.

Is that the case, or have we been fed a lie?

**Mr. Marion Wrobel:** Well, I'll leave that for any of my members who might want to address that.

I do want to make one statistic public. Of all of the applications to my member banks under the HILLRP, there has been a total of seven refusals. That's a very low number.

On the interest rate, I'd like to ask one of my members to answer that.

David?

**The Chair:** In the interest of time, could each bank just answer yes or no to the question?

**A voice:** Sure. What is the specific question?

**Hon. Wayne Easter:** The specific question is on the concern from the...

I'll run out of time here, and then I'll give you the question, I'm sure.

I just want to give you a compliment in one area. My office has been dealing with one heck of a lot of farmers in financial distress, some being sold out. When it comes to trying to do a deal with a series of lenders, banks are willing to do a deal; Farm Credit is damn near impossible. It's just damn near impossible to do a deal with Farm Credit, because they won't write down principal, whereas the banks will.

So I congratulate you in that area, and I would ask you, in that area, about Farm Credit. They're supposed to be a last-risk lender. What I'm hearing from bankers is that they're going to the greater ability to pay back loans and are not into the high-risk lending they used to do. That burden is falling, to a great extent, on you. I see it in the cases I deal with. So I congratulate you in that area.

The question, for the yes or no that Larry asked for, is on the HILLRP loan. We have farmers informing us that when they go into the bank, in cases in which the interest rate might have been prime plus 2% before, they're saying, okay, we'll lend you the money, but we want prime plus 6%, prime plus 5%.

**Mr. David Rinneard (National Manager, Agriculture, BMO Bank of Montreal, Canadian Bankers Association):** My response to that is that we have not, to the best of my knowledge, engaged in policy like that. Our pricing for HILLRP has been consistently about prime plus 2% to 4%, I suspect.

**Hon. Wayne Easter:** Darryl.

**Mr. Darryl Worsley (Director, Agriculture Segment Business Banking, CIBC, Canadian Bankers Association):** No. It's priced on a case-by-case client basis, and it would not be in that range.

**Mrs. Gwen Paddock (National Manager, Agriculture and Agribusiness, RBC Royal Bank of Canada, Canadian Bankers Association):** And at Royal Bank, we have no specific or different pricing for HILLRP loans; they're priced in accordance with the rest of our agriculture portfolio.

[Translation]

**Mr. Bertrand Montel (Senior Advisor, Agribusiness and Agrifood Sector, National Bank of Canada, Canadian Bankers Association):** The National Bank does not have any specific interest rate policy based on the usual rate grid related to each client's level of risk.

[English]

**Mr. Jon Curran (Manager, Agriculture Credit Products, TD Canada Trust, Canadian Bankers Association):** For TD Bank, they're all priced between prime plus 2% to prime plus 3%.

• (1550)

**Mr. Bob Funk (Vice-President and Director, Agricultural Services, Scotiabank, Canadian Bankers Association):** I would echo that. We don't have any that would be priced 5% higher than they were before.

**The Chair:** You're out of time, Wayne.

Ms. Bonsant, you have seven minutes.

[Translation]

**Ms. France Bonsant (Compton—Stanstead, BQ):** Considering what is happening with this government, there will be a new piece of legislation on mortgage rates next Monday. People will have to make a down payment equal to 20% of the purchase price of the property. How are you going to implement that knowing that some farms maybe worth 1.2 or \$1.5 million? Will you also demand a 20% down payment in those cases or will you be more flexible?

Some young farmers who appeared before the committee last December told us that capital is required to enter this business. What would be your new policy relating to the 20% down payment with those young persons who want to start in agriculture?

**Mr. Bertrand Montel:** I will start with this question. If you are talking about someone wanting to start in agriculture without any other support, there are some rules that we follow. Usually, we work with young farmers early on in order to help them build their funding structure. Our portfolio is mainly in Quebec where there are various avenues to build funding structures allowing young people to start in this business. Naturally, in some cases, the cost of capital is very high and they do not have enough cash to make this down payment. On the other hand, there are several public programs that have been set up by cooperatives in order to help young farmers start their operations.

In the case of a farm being transferred by parents, it is possible to use the current net value of the farm to fund the young successor.

**Ms. France Bonsant:** Earlier, Mr. Easter asked you what is your preferred rate for farmers. You answered that it is the preferred rate plus 2% but you added that it depends on each case, based on the profitability of the farm. These days, not too many farms in Quebec are profitable, whether they be hog operations or something else. One only has to think also of what happened with the mad cow disease. The whole of Canada was penalized because of a cow in Alberta.

As far as I am concerned, you are the only one telling the truth. Is it really on a case-by-case basis? In the case of a hog operation, it is the preferred rate plus 5, 6, 7 or 8%. In the case of a profitable farming business that has been in operation for four or five generations, it is the preferred rate plus 2%.

I would like to know what is the real situation relating to loans for farmers.

**Mr. Bertrand Montel:** Briefly, all lenders in the agricultural sector are aware of the business cycles and they take account of the history of the business. We rarely base our decisions on a single year to know if the operation is profitable or not. We are knowledgeable about the industry because we are professionals, we are aware of the business cycles and we take them into account.

In the case of a young farmer launching a new project, we would consider the soundness of the project. The rate is actually based on our assessment of the risk. We also take account of the quality of the assets used as collateral. We make a global assessment of the risk, including both the risk of default and the risk of losses in case of default.

**Ms. France Bonsant:** I find that a bit strange. My riding includes 60% of farmers. I have heard of farmers wanting to kill themselves by jumping from their silo because of the greediness of banks. In the case of farms that have been in operation for several generations, I find it hard to believe that you would look at the history of the previous three or four generations and that you would suddenly be very generous because climate change is putting the farmer in difficulty. Banks are not non-profit organizations, they exist to make money.

What is the average rate of bank loans? Is it 7, 8 or 10%? One has to be a banker to understand your decision-making process. There are fixed rates and variable rates, fixed rates that can be converted into variable rates at maturity, and rates guaranteed for 45 days. Your young farmer only wants to operate his or her farm, not try to understand the Byzantine subtleties of the banking business.

I want to know what you can do to help those people working in agriculture. We hear all the time people talk about food sovereignty, climate change and greenhouse gases. We absolutely have to keep our farmers here. I do not want to have to buy chicken from China. What is it your plan to help farmers with loan rates and management?

• (1555)

**Mr. Bertrand Montel:** I will give you a brief answer. First of all, in Quebec, banks represent about 35% of farm loans, the caisses populaires about 50%, and Farm Credit Canada about 15%. So, we are not the only ones lending money to farmers.

Furthermore, generally speaking, the average rate for our agriculture portfolio is less than prime plus 3.

**Ms. France Bonsant:** Prime is the preferred rate plus 3?

**Mr. Bertrand Montel:** The average rate of our portfolio.

**Ms. France Bonsant:** My colleague is a farmer.

[English]

**The Chair:** You have 30 seconds.

[Translation]

**Ms. France Bonsant:** He is a farmer, I am not.

**Mr. Claude Guimond (Rimouski-Neigette—Témiscouata—Les Basques, BQ):** Recently, we have seen reports on Chinese holdings coming to Quebec and Canada to buy land. As a banker, how do you react when you see those reports?

**Mr. Bertrand Montel:** At first, we were very surprised because we had not heard of that on the ground. Later, it appeared that in that specific case, it may be a case of real estate fraud since the verifications carried out by the parties to the transactions did not provide definite answers. There is some doubt about the partner really being a Chinese investor. The issue is to know if non-farm investors intend to invest in farmland in Quebec and Canada. It is probable. Some investment funds have already done so.

**Mr. Claude Guimond:** What is your position about that?

[English]

**The Chair:** Your time is...

[Translation]

**Mr. Claude Guimond:** Do you approve of that or not?

**Mr. Bertrand Montel:** It really depends on who the partners are and what their intentions are in the context of funding the agricultural industry.

[English]

**The Chair:** Thank you.

We'll now go to Mr. Atamanenko for seven minutes.

**Mr. Alex Atamanenko (British Columbia Southern Interior, NDP):** Thank you very much for taking the time to be here.

You mentioned, Monsieur Montel, that, in a rough breakdown, the banks have roughly 35% of the loan business in Quebec, and credit unions 50%, and Farm Credit Canada 15%. I'd like to know if the percentages are roughly the same in other parts of Canada.

**Mr. Marion Wrobel:** Nationally, it's about 38% for the banks.

**Mr. Alex Atamanenko:** Do you know how much credit unions would take up?

**Mr. Marion Wrobel:** Farm Credit Canada has about 24% or 25%, and the credit unions, the caisses populaires, would have the rest. That's across the country.

**Mr. Alex Atamanenko:** Okay. I was just curious about that, because I wasn't sure.

My next question is about Statistics Canada data showing that farm debt outstanding amounted to a total of \$59.1 billion in 2008, or 5.9% more than it was in 2007. Does this growing debt make it harder for young farmers to get credit, even though there are credit programs in place? These are tough times for many farmers. It's very difficult, as we've heard before when the committee has travelled, for young farmers to get into the business. Is this making it more difficult? Are you offering anything special to young farmers vis-à-vis people in the cities? Is there something that is encouraging farmers to stay in the business and to keep our rural communities alive?

That's just an open question.

• (1600)

**Mr. Jon Curran:** I have no problem speaking to that question.

I don't think the amount of debt within the industry is impacting the availability of credit at this point in time. There is certainly credit available where the situation warrants. As we mentioned previously, we assess credit applications on a case-by-case basis. If the individual, be they an existing farmer or a new farmer, comes to us seeking credit, we will review their business plan.

There are certainly programs. For example, the CALA program provides a higher loan value and minimizes the down payment requirement. It only requires a 10% down payment for new farmers, so it's a great avenue for new farmers to get into the game.

Certainly every situation is evaluated individually, and I don't think the \$59 billion is limiting the availability of credit to new farmers at this point in time.

**Mr. Alex Atamanenko:** Would anybody else like to comment on that?

**Mrs. Gwen Paddock:** I would say that what we can provide to young farmers in a lot of instances is business and financial advice. That's key to setting up a commercially viable operation and to helping them meet their long-term goals. I think that's key.

So when you ask if there are different programs or different criteria for our young farmers as opposed to established farmers, the answer would be no, to the extent that when we assess credit, the operation needs to be viable. We're not doing anybody any favours if we provide credit yet the operation doesn't have a high likelihood of success.

I think where we really do a good job as lenders is in talking to that individual and finding out what their goals are, and helping them work through some of the decisions that will allow them to establish an operation that has a high chance of being successful.

**Mr. Alex Atamanenko:** The other question that goes along with that is regarding the Farm Credit Canada program for young farmers called the accelerator loan, where there's apparently no down payment. Is there something similar that the banks offer to young farmers?

**Mrs. Gwen Paddock:** Actually, my advice to a young farmer would not be to go the route of no down payment, because I think when you look at the cycles in agriculture and how prices go up and down, you need to have some equity so you can withstand some of the bumps and the things that don't always go as planned. I think our approach is more about providing good advice around proper capitalization of the operation, so people don't get so far in debt they can't withstand any bumps in the road.

**Mr. David Rinneard:** There are also some other product offerings by banks that facilitate young people trying to get into agriculture. As Marion alluded to during his introductory remarks, the CALA program, of course, is the most obvious of which, that is now available to new entrants, to new farmers, looking to get into the agricultural space. Other enhancements have been certainly of a higher level or a higher threshold with which the program now tolerates...and is now eligible for land finance.

In addition to that, banks are also willing to look at the succession of parents, through the use of vendor take-back initiatives, where some of the equity that my colleague suggested is critical to the future viability of a business can come from a parent or family member who can provide that while at the same time getting bank financing.

**Mr. Alex Atamanenko:** Kind of tied in with that is the fact that all of us have either read somewhere, or seen or heard stories, of situations where banks are ruthless with people in debt, and of foreclosures. I personally talked to a woman who had a very bad experience with a bank that was being very ruthless, but she wasn't a farmer.

In the hog sector or in the cattle sector, for example, for the farmers who have debt already, not the ones getting into the business but the ones who are struggling and who may not be eligible for any assistance from the government for whatever reason, is there leeway? I know this is just a general question, but is there a case-by-case assessment, maybe giving them a little extra time?

I have the impression that banks are very, "If you don't make your payment now, that's it." So I'm just wondering if, given the fact that there is difficulty in the farming sector, there are provisions from different banks to help people through this crisis in the next year or so.

● (1605)

**Mr. Marion Wrobel:** I'm going to turn to one of my members, but first I just want to make one point. Prior to the HILLRP being put in place, the banks started to identify those farmers in the hog industry who needed restructuring of their loans. They started that process even prior to the announcement that the government wanted to create a HILLRP. So in some respects, the HILLRP complemented what had already been done.

I'll ask Bob, maybe, to talk to that specifically.

**Mr. Bob Funk:** I think David was looking at this.

**Mr. David Rinneard:** I think our track record is excellent, to be truthful. The BSE crisis, of course, really exemplifies that and our willingness and understanding of the strife that occasionally occurs within the agricultural space.

Through the BSE crisis, our Bank of Montreal specifically issued a program that lasted for the better part of two years and included things like principal deferral, interest rate reductions, and fee concessions. We used all of these tools to facilitate that producers continuity while the resolution was being addressed through political means or whatever.

I think we've got a fantastic track record in the agricultural arena.

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

We'll now move to Mr. Shipley for seven minutes.

**Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC):** Thank you, Mr. Chairman.

Thank you, witnesses, for being out today.

It's seldom that I get to see this many bankers all in one place, so I look forward to your input. The comments we're making here about young farmers are so important.

Mr. Wrobel, I look to your comments at the start, and I think they're extraordinary, actually. You say that the banking industry believes young farmers are "important", and that you are seeing "a resurgence of interest in agriculture by the younger generation of farmers", whom you call "bright and determined".

I think that is an incredible, clear picture and description of what I see, not only, likely, in my area, which is an agriculture area in Lambton—Kent—Middlesex in Ontario, but there are young farmers coming along in a very difficult time. It's difficult sometimes because of markets, there's no doubt; and difficult, I think, because we have increasing land prices, increasing land rent, incredible prices. I farmed, and when I look at some of the equipment and their cost...

They need to be looking broader in terms of how they market. They are not just farmers who get up and do their job. They become marketers. Actually, they become more than marketers—they're commodity advisors, almost, within an integration of young farmers around them. These are just incredible young people.

You make the comments "recognize the new reality" as part of a "global supply". Is that in fact a recognition that when they come in and talk to you, either with their support...? And it might be a parent, because usually these are often successions. I think the comments I made earlier recognize that there has to be, for someone to want to get into farming, to go into a multi-million dollar business, more than just a fleeting thought and just a love to do it.

So can you help me on this? Do they actually recognize these new risks they're up against?

**Mr. Marion Wrobel:** I'm going to ask my colleague—the bank that does the recognition.

**Mrs. Gwen Paddock:** Sure, I'll answer that.

We talk a lot about the credit products that banks provide, but really there are a whole host of other products and services. When we have a conversation, depending on the commodity that the individual is producing, it could be around foreign exchange, it could be around trade arrangements. Whether it's letters of credit or documentary collections, that whole discussion has gotten a lot more complex because it is a global marketplace. A quick example would be the ash cloud that stopped the importation of roses from Kenya. When you think about how connected agriculture is today, it definitely is global.

So I think when we talk about providing financial and business advice, it's about helping those individuals, whether they be beginning farmers or established farmers, to understand what risks they need to manage in their operations.

● (1610)

**Mr. Bev Shipley:** I have a quick question. When I started, loans were not always based on a solid business plan. Actually, they were often based on equity, which was a false misdemeanour. That has changed. They've now become viable business plans.

Is that in the agriculture industry any different than any other industry coming to you trying to secure funds to operate or to build capital expenditures?

**Mr. Bob Funk:** I think by and large when we look at a business application—regardless of the industry that it comes from—we use the same principles. You want well-managed businesses. You want enough capacity to repay the loan obligations that are projected as being undertaken. Then you want the collateral behind it to give you the safety net in that unlikely event that the business fails.

So to that extent you do look at loans very similarly, whether they are agricultural loans or steel company loans or automotive loans. The difference potentially comes in that agriculture has an asset that other industries do not, and that is land, which essentially appreciates. In many other industries you'd have depreciating real estate assets. So you've always got that sort of leverage in the balance sheet.

**Mr. Bev Shipley:** Since they're in the same type of pool, only in the fact that when they borrow they have to have a business plan, they have to be great operators and managers and so on, what is the default on agriculture in comparison to those other industries in which they're competitive? Is there a larger...?

We keep hearing that agriculture is falling apart and nobody's going to be farming. We know that there are sectoral issues, but I'm asking in terms of the banking. Where does agriculture stand in terms of its default, in comparison to other industries?

**Mr. Bob Funk:** In our banks, the default rate for agricultural loans is not higher than commercial ones. In fact, most years it is less.

[Translation]

**Mr. Bertrand Montel:** I would also say that the rate of default is significantly lower in agriculture.

[English]

**Mr. Bev Shipley:** Okay.

I want to move on to the next one, which is really the critical part of what we're talking about with beginning farmers, and that's succession planning. You mentioned that in your talk.

One of the things that is always critical in farming, I think, is the older generation actually wanting to let loose, to let the next generation take over. The significance of succession planning likely is going to be one of those issues that makes success or failure of the business; it could.

In terms of the capital gains exemptions that we allow now, \$750,000, and with the advance payment for the funding that is available for beginning farmers, I'm just wondering, do you see these as effective tools? Are they being used? Are they being considered in your discussions in terms of succession planning?

**Mr. Darryl Worsley:** If I may answer that, yes, certainly they are. We have ongoing dialogue with our clients and their children—the successors of these businesses—looking at all of the different implications from a tax perspective. We look at some of the soft issues, to your point in terms of transitioning the business over time: do the people have the right knowledge, and will the farm be viable for the next generation?

So we work with our farm clients to ensure that they're asking those questions of themselves and that it's covered off. We also work to connect them with not only people within our organizations, as Gwen alluded to, but external people as well who can assist with that.

**Mr. Bev Shipley:** I think my time is up.

**The Chair:** Thank you.

We now move to Mr. Eyking for five minutes.

**Hon. Mark Eyking (Sydney—Victoria, Lib.):** Thank you to the witnesses for coming here. I have two questions. I'll ask the two of them, and then each representative can answer.

We often talk about farmers and farmers' assets. When we look at the farmers' assets, they're really society's assets, when you think of their importance. They produce our food, which is vital. The farmers are the stewards of the major part of our land mass in our country. But also, environmentally, they give carbon credits and things like that. They play a very important role in our society.

Should governments and your institutions treat them and other industries in different ways?

Second, how do your financial institutions see your future, in the next 10 years, in terms of your total lending portfolio? Do you see agriculture rising or falling as a percentage of the capital you're giving to agriculture compared to the other industries you support or lend money to? Do you see agriculture in the next 10 years with a larger percent or a lower percentage, and why?

• (1615)

**Mr. Marion Wrobel:** Do you want to address that to each banker?

**Hon. Mark Eyking:** Yes, sure. I think I have four and a half minutes, so they can all tell me in half a minute what they think.

**Mr. Marion Wrobel:** We'll start with Bob.

**Mr. Bob Funk:** To your first question, on whether government should treat farmers and other industries differently, obviously a policy decision on how you treat an industry is something a government can make and support with a policy network, as it chooses. If we look from a commercial standpoint at a farmer relative to any other business person, we know that in fact the marketplace they will operate in will be an international marketplace. We need to pay attention to whether the structure they are building is an economically viable one.

Essentially, short of government saying that there is a special area we want to address and that we want you to address in a special way with special loans and special guarantees and a special whatever else, we will say that we need to work with our clients so that we can help them be internationally competitive.

To the second question, on whether the percentage of capital to agriculture is going to grow or change, if I had a crystal ball I probably wouldn't be sitting here. I'd be giving somebody advice and taking a lot of money for it.

**Hon. Mark Eyking:** But you must have a sense. I mean, you would know if the oil patch or the auto industry were going to take more credit. You know your industries, and you have a little bit of a...

**Mr. Bob Funk:** What we do know is that there's a significant intergenerational transfer that has to happen in agriculture, and that has to be financed. To that extent, I think it is somewhat of an anomaly, perhaps, in industry. So for the next 10 or 15 years, I think there will be a significant demand for agricultural credit of a long-term nature.

**Mr. Jon Curran:** From TD's perspective, similar to Bob's response on the first part, obviously public policy is your decision. We recognize that there are some nuances within agriculture that need to be dealt with differently. As such, we have a dedicated sales force and dedicated business units that deal specifically with farmers

across the country. We find that it helps in having those conversations with both existing farmers and new farmers.

Further to that point, where do I see agriculture growing within our portfolio? Again, I wish I had a crystal ball. But at the end of the day, we are investing in more bodies. We are growing our portfolio. I would like to think that with respect to agriculture, that would continue to be the case.

[Translation]

**Mr. Bertrand Montel:** About our vision of the specificity of agriculture, as the TD person said, agriculture is very particular. We have a specialized team and specific policies for agriculture.

As far as the future of farming is concerned, I cannot speak about the total amount of debt in the industry since it depends on the future of supply management. However, relating to credit needs and the need for financial services, these will continue to exist, to diversify and to grow in terms of the diversity of products and services.

[English]

**Mrs. Gwen Paddock:** When you think about the recession we've come through, one reason the Canadian banks came through quite well was because of our strategy of keeping a very diversified portfolio. For that reason, agriculture is a really important component that keeps that diversity in our portfolio. So from a big bank strategic perspective, I think very much that there will continue to be interest in making sure that we're covering all sectors.

Personally, in my role, my mandate is to develop a strategy to grow the business we have in agriculture. It's not just important because of the impact on farmers. When you think of agriculture, it supports rural communities. And that's a very important aspect of the bank, because we have many branches and staff working in rural communities. We see it as being very important, and we will maintain if not grow it in the future.

• (1620)

**Mr. David Rinneard:** To be honest, we already treat agriculture differently, recognizing that there are many idiosyncratic aspects to the industry. Some of my colleagues alluded to special personnel, special products, and special policies tailored very well to serve that sector, recognizing there's annual cashflow, there's a lot of capital intensity, and the importance of the production of food.

To address your second question, at my institution agriculture is already the largest core sector that we serve. If I continue to do my job properly, it'll stay that way. The growth that I anticipate within agriculture, at least from our perspective, will be commensurate with the requirements of the industry.

**Hon. Mark Eyking:** A short one, Chair?

**The Chair:** No, you're way out of time. But I will allow Mr. Worsley to comment, if he wants to.

**Mr. Darryl Worsley:** Thank you, Mr. Miller.

CIBC certainly believes strongly in this business, and does see it growing over time. As my colleagues mentioned, it's a unique business, and we certainly have dedicated resources to meet those unique needs in areas you mentioned, such as renewable energy.

**The Chair:** Thank you.

Ms. Paddock, coming from a very rural community, I did appreciate your comment about the connection to communities and what have you, because their lifeline is related right back to agriculture.

Anyway, Mr. Hoback, you have five minutes.

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

When we purchase assets like land we're starting to see the reality that the crops we grow on it can never pay for the purchase price. Is there anything we should be doing as a government, or anything you guys are doing in the industry, that accounts for that scenario? What I see happening in lots of the areas of Canada—it's happening more in Saskatchewan, which has been later to the game than, let's say, Prince Edward Island or Quebec or Ontario—is that the value of the land is getting so high there's no way young farmers can make the payments on it growing the crop they want to grow or putting on the livestock they want to put on it.

How do we as a committee handle that as a policy issue, to get around that? Any advice?

**Mr. Marion Wrobel:** Let me make first an observation about the bank lending to the agricultural sector.

I think I referred to it in my opening remarks, but we are the largest non-mortgage lenders to the sector. About two-thirds of our lending is for operating lines of credit of working capital. And that's not really based on asset values, but on the actual operations of the farm. That's why the credit that's been extended by the banking sector has grown in line with the output of the farming sector. It hasn't been driven by asset prices and things like that.

But to the specific question, I think some of the members may want to talk about that.

**Mr. Bob Funk:** I think the issue we see with land values is that, when you are operating farm businesses that are growing and that already have a core operation—in other words, to draw a quick and dirty analogy, you've got a corporate farm where you're going from one generation to the next, you're bringing in sons and daughters and grandsons and granddaughters—it's easier to buy incremental assets and to pay the price you need to get adjoining land and adjoining assets than it would be if you came to an agricultural business fresh; you're the first generation, you want to start, and how are you going to start? The minimum required to have a viable commercial agricultural business means you'd have to have a pretty big bank account to stand the downstroke in order not to be over-leveraged in the business.

Where I think the real challenge going forward will be is where you have intergenerational turnover that goes outside the family and where the senior generation is not in a position to want to or be able to finance the incoming generation. That's where the challenge will be, and that's when the push-back on land values and things like that will have to happen.

• (1625)

**Mr. Randy Hoback:** But we're seeing a scenario even now in different parts of Canada where in certain regions, because the asset values have gone so high, even existing farmers are looking it and saying, "This doesn't make sense anymore", and they're having a

hard time staying in business. I think we see that in Prince Edward Island, for example, with the potato farmers.

Mr. Easter gave me an example of a farmer that has \$1 million worth of debt. There's no way he can grow enough potatoes to ever cover that, yet somehow he's managed to get \$1 million in debt.

How does a young farmer coming into the business do that in such a way that he doesn't take his dad and ruin his retirement and everything else? Because what he has there is his farm. That's his RRSP. So now as this young guy—his son or neighbour—comes in and buys that farm, if he doesn't pay a fair value for that, his dad can't retire. Yet, in the same breath, if he does pay a fair value, there's no way the son can actually make the payments.

**Mr. Marion Wrobel:** I think, Mr. Chairman, one way to answer that is to say that it's important for lenders to the sector to be prudent and to follow sound business practices. As I said, the banks have been recognized internationally for their risk management approach and their prudent lending. That is the approach we take to the agricultural sector, and it's similar to the one we take with other sectors.

**Mr. Randy Hoback:** But one beef I do have there is that if it weren't for CALA, the loan guarantees you guys get, would you be into the game as heavily as you are?

**Mr. Marion Wrobel:** Mr. Chairman, I would say that more than 95% of the lending that the banks do is outside of government programs. It is done. Oh, yes, the—

**Mr. Randy Hoback:** So you're not utilizing the CALA program.

**Mr. Marion Wrobel:** We utilize the CALA, and CALA enables us to do lending that we would not otherwise do, because there is that guarantee. The HILLRP enables institutions to give restructuring loans that they might not otherwise have given.

But as I indicated earlier, my members started doing those restructurings before the HILLRP. They were doing that without government support. The vast majority of our lending out there has no government guarantees associated with it. It is done on commercial terms. It is subject to the same prudential standards that we applied to any other loan. It is subject to OSFI looking at the portfolio and saying, "You're doing the right thing. You have the right amount of capital, and you're taking on the right amount of risk."

While those government programs are important and they do help to foster incremental lending at the margin—I'm just going to repeat this—the vast majority of the lending we do is outside of government support programs, and it is done on commercial terms.

**The Chair:** Thank you, Mr. Hoback.

I'd just like a clarification, Mr. Wrobel. You used a figure of 95%. Was that 95% of your agriculture accounts?

**Mr. Marion Wrobel:** Yes, that's the total amount of lending.

**The Chair:** I thought it was, but I just wanted to clarify that. Thank you.

**Mr. Bev Shipley:** That's the total amount of lending.

**The Chair:** But it's the total amount of lending to agriculture.

**Mr. Marion Wrobel:** It's the total amount to agriculture that is done without government loan guarantees or anything like that.

**The Chair:** Thank you. I just thought it was important to clarify that.

Mr. Guimond, you have five minutes.

[Translation]

**Mr. Claude Guimond:** Thank you, Mr. chair.

Good morning, lady and gentlemen.

As my colleague has told you, I am a farmer and a milk producer. Therefore, supply management is a major concern of mine. I have been meaning to ask a question for a long time now. Since we have in front of us such a broad group of bankers, I will ask you the question I have had in mind for about 10 years.

During trade negotiations, for example relating to the Doha cycle, what would be the economic and other consequences for your banks if Canada were to lose supply management? You have certainly considered the issue and thought of a strategy.

**Ms. France Bonsant:** It is a good question, is it not?

**Mr. Bertrand Montel:** It is an issue that we are well aware of. Looking at Statistics Canada data and subtracting the value of quotas from the balance sheet of the milk industry, for example, it is quite clear that there would be a loss of a significant part of the net value. This would probably also lead to a reduction of incomes.

Our position is that, were this to be decided, it would be vital to prepare for the transition. There would have to be enough time for a smooth transition because, if it were to be implemented suddenly, it would obviously—and I am sure everyone here shares my position—severely impact the portfolio of farm loans to the milk industry.

• (1630)

**Mr. Claude Guimond:** It does not relate only to the milk industry but also to the poultry industry.

Is that unanimous? Do you all share that view?

[English]

**Mr. Bob Funk:** Perhaps I can offer my thoughts here.

When we examine our policies at any given time relative to supply management we look at a number of things. What are the expected changes? How much will the WTO drive in changes to the supply management package? The commitment at this time is quite strong.

The other factor is that as and when changes are made, they have an introductory period and a phase-in process, whereby it is not this way one day and a totally other way the next. So we anticipate that we will be able to work incrementally with the changes that might be introduced. That is how we examine our policy at any given time.

We think about what would happen if such-and-such change were made and we had five years or seven years to implement it. If we think that would be catastrophic to the industry, it would be much more challenging for us with producers than if we said, "Just give us a little time." Many of these operations would already have loans well in progress. Changes would not involve stopping the flow of income to the business. We would want to be able to evaluate what

the cost structure changes would be and see if the margin of revenue over costs could be maintained.

Those are the assessments we do as we look at what the potential policy changes would be.

[Translation]

**Mr. Claude Guimond:** Thank you. This means that we have to make sure that supply management is protected.

As I told you, I am a farmer and I have been involved in farm unions in Quebec for 15 years. Unfortunately, for a number of years, because of the crisis in agriculture, we have seen a high level of distress in Quebec, particularly in the farming community. There are more and more suicides and cases of psychological distress. Farm groups in Quebec, and even the general society, are taking stock of the situation and are wondering if the present model has not reached its limits. When I talk about the present model, I am referring to extreme globalization and free markets. More and more, we negotiate the price of a pint of milk as we would the price of a TV or a sofa and many people in Quebec are convinced that we are reaching the end of the line.

Faced with this situation, lots of people talk of a new principle of food sovereignty for Quebec. I understand that you are not the ones making policies but, still, you are a very important partner of the farming community. Therefore, what is your vision or your opinion about what is happening currently in the agriculture industry with this system of unfettered free markets, and what do you think of this new principle of food sovereignty that is more and more talked about?

[English]

**Mr. Marion Wrobel:** The banking industry is a profit-making industry. We believe in free markets. We recognize, as some of the members have said, that agriculture is unique to some extent. There are many more government programs associated with it, and there are social issues associated with it. But generally we operate in a free market, and we think free markets tend to work well.

If the government and the Parliament of Canada were to decide that agriculture should be very different, it's really up to them, and we would have to operate within that kind of an environment.

• (1635)

**The Chair:** Thank you.

I'll now move to Mr. Richards for five minutes.

**Mr. Blake Richards (Wild Rose, CPC):** Thank you, Mr. Chairman.

I appreciate all of you being here today as we start this study on the future of farming and young farmers. It's actually quite fitting that we have a panel of bankers here on our first day of study to talk about this issue. As much as we wish it could be otherwise, the relationship that farmers have with bankers is certainly a very important relationship for the farmers.

Although I think the banks need to do more work from their end in terms of the relationship with the farmers, I would commend you on some of the efforts you're making. Some of the things I've heard today have been in terms of trying to make sure the relationship with farmers is a good and strong one. I often hear farmers complain about the big bad bank, but on the other hand, they talk about Joe, at a local branch, who is very good to deal with and very understanding about farming and the business. It may be a small contradiction in some ways, but I appreciate the work you're doing to try to improve.

To begin with, in your presentation you specifically mentioned the Olds College school for bankers. Olds College is actually in my riding. It's in my home town as well. As it is one of the premier agricultural schools in all of Canada, I would say that anyone who receives an education there certainly receives a good education, one that will be valuable, and has spent time with some of our great future farmers. I commend you for that and for mentioning it.

The question I have is to all of you. Try to answer as briefly as you can, because we have a very limited amount of time. I guess it's a three-part question.

One of the things mentioned in your presentation, to quote you, is that "The key to the strong relationships we have with farmers is understanding their circumstances." I'm very curious; all of you hold senior positions within your organization in terms of dealing with agricultural portfolios, and I'd like to know about your specific backgrounds. Do you have a background in farming? Did you grow up on a farm? Do you have a degree? What is your specific agricultural background?

Secondly, what is the one piece of advice, the best piece of advice, you would give to a young farmer? You deal with them when they come into the banks to get started in the industry. What would be the one best piece of advice you would offer to young farmers? Certainly the key to the future of family farms is helping our young farmers.

The third part to the questions is this. What one specific program do you have that's designed to help young farmers get started in the industry, whether they're taking over a family farm or looking to start their own farms?

I know it's a lot to try to answer. But very briefly, each one of you could answer, if you can.

**Mr. Darryl Worsley:** I personally have a background in farming. I have a business degree in agriculture. In my role, I try to get out and meet as many farmers and producers as possible on a regular basis. The people across our organization who work in agriculture certainly have similar backgrounds.

In terms of advice for young producers, I think planning is probably the biggest piece of the equation in terms of getting into the business. My colleagues have mentioned that today in terms of proactively building good business plans, planning ahead, and understanding the international landscape. I think planning is the key for young Canadian farmers today.

In terms of programs, as I mentioned earlier, we work with farmers across the country on the farm business-transition side or succession planning and through our sponsorships, such as the Outstanding Young Farmer program with the CIBC. We work with

young farmers to help them build the confidence to succeed in the business.

• (1640)

**Mr. David Rinneard:** Thanks for your question.

First of all, I worked on a farm extensively both after high school and throughout the post-secondary degree that I did in Alberta. I then began banking in Medicine Hat and later in Olds. I have spoken at your college, and I'm familiar with it.

With respect to advice to new entrants into agriculture, my suggestion would be that they need to be proactive and preemptive. They need to ensure that they have the means with which to address issues before they arise, as opposed to waiting for them to transpire and then trying to be reactive.

You'll have to forgive me, but I didn't hear the third part of your question.

**Mr. Blake Richards:** I was asking specifically about whether you have a program that looks at helping young farmers start in the industry.

**Mr. David Rinneard:** I do know that we have representatives who speak at various institutions that teach aspiring farmers about agriculture. In addition to that, we participate in the CALA program, which, of course, is a program that's now well tailored to serving aspiring farmers. Last, we're extremely keen on facilitating succession within the agricultural space.

**Mrs. Gwen Paddock:** I'll be quick, because we have a few things to go through.

I grew up on a beef cow-calf farm in southwestern Ontario, and came up through 4-H and Junior Farmers. I have a degree in agriculture economics. I've been an agriculture banker for 25 years, a graduate of the advanced agriculture leadership program, and past president of the Ontario Agri Business Association. So my blood is pretty green.

**A voice:** John Deere green?

**Mrs. Gwen Paddock:** No, not John Deere green.

**Voices:** Oh, oh!

**Mrs. Gwen Paddock:** On the second question, my advice would be to treat your operation as a business. There are a lot of reasons as far as lifestyle is concerned to want to live in a farming environment, but first and foremost, treat it as a business.

Third, as far as the initiatives are concerned, we sponsor the agriculture speaking series. It allows us to bring very high-quality speakers to address groups, people who our producers wouldn't normally have access to. One speaker we feature quite often is Dr. David Kohl, who is probably one of the most renowned agriculture economists in North America. The speaking series would be what I would highlight as far as a program is concerned.

[Translation]

**Mr. Bertrand Montel:** About the degrees I have obtained in France, I have a master's in animal production and a PhD in farm management and economics.

My advice to a young farmer, to answer the previous question, is to take the time required to set up a strong business plan.

Finally, at the National Bank we have a team specialized in farm economics to help young farmers prepare their plans for entering the industry or, in some cases, take over an existing farm. We have specific lines of services and products especially for that clientele.

[English]

**Mr. Jon Curran:** I spent part of my youth growing up on a farm, when I was in high school and university. I continue to get my hands dirty helping my dad out on his small farm in Grey County. I'm a University of Guelph graduate in agricultural business, and up until two years ago I was lending money directly to farmers as an account manager in the field. So I've had a lot of first-hand experience working with producers, both existing farmers and new farmers trying to get into the business.

My best piece of advice for them is to talk to lots of people and to get lots of different perspectives and to come up with a good plan and test it against a couple of different individuals. Obviously there are a lot of nuances out there now in the business: you have to know international markets; you have to know production; you have to know finance; and sometimes you have to know human resources. So it takes a lot.

As for what we're doing at TD to support young farmers, we're a title sponsor of the 4-H youth leadership conference every year during the Royal Agricultural Winter Fair as the primary sponsor of that fair. We also provide over \$25,000 a year in scholarships to young students looking to get into business agriculture across the country.

**Mr. Bob Funk:** I am one of the westerners in the crowd. I was born and raised in Manitoba on a beef, cereal grain, and oilseed farm. I graduated from the University of Manitoba with a degree in agriculture economics and did some graduate work at the University of Guelph, so I could split my experience between one end of the country and the other.

My best piece of advice for the next-generation farmer is to think ahead and build a strong business plan. My reason for that is fairly clear: plans do not always come to fruition, but the people who plan are closer to their goals than people who don't. So I think you have to keep doing that.

The specific thing we are doing at Scotiabank for young farmers is that we have dedicated farm teams from the field level, whether in the local branch for the small business farmers, or commercial credit client relationship managers, or the credit people who adjudicate credit in face-to-face contacts with farmers, up to the policy-making level of the bank. At all of these levels, we have people involved who are trained and specialized in agriculture. We do that because we want to help the industry grow.

• (1645)

**The Chair:** Thank you. There has been some good advice all around the table.

Mr. Valeriote.

**Mr. Francis Valeriote (Guelph, Lib.):** I have three specific questions to ask. Whoever feels most qualified to answer them can step up. If more than two want to answer, that's great.

One of the things you do in giving out loans is assess the risk. Obviously you're profit-oriented, and that's fair. In assessing that risk, I think you need to know, when a farmer might run into some kind of trouble, what kinds of programs are there for the government to assist. One of those programs is AgriStability.

We've had many farmers come before us to... I can't count the numbers. And this isn't a criticism of the government; this is an assessment of the program to decide whether or not it's working.

So the farmers talk about this olympic averaging, and how the protocols are not working. They say it's not being fair to them because they need to have two years where they're in the black and not the red, and they can't get those two years in many cases.

I'm wondering to what degree might you recommend—if you could, if you look at this—that we redesign or tweak the business risk management so that it helps the farmers and lessens that risk so you might be more willing to have them qualify for loans. That's the first question.

The second question is about transition, about succession planning. We all know how much is going from one generation to the next. I used to be a succession planning lawyer, and I did a lot of work helping plan the transition of farms from one generation to the other. I would assume that you've been engaged with the government to some degree in helping them redesign some tax rules and laws that might address the issue that Randy was talking about. I'm just wondering if you have some advice for us on how some of the tax laws might be adjusted to enable that transition to occur when it might not otherwise occur.

My third question is on loans, not just to farmers but to other areas of the industry that ultimately help the farmers. That involves loans to companies that turn biomaterials they get from processing plants into energy, that kind of thing. As you know, we're becoming far more innovative now in pursuing the use of those materials to create energy.

I'm wondering to what degree the banking industry is prepared to participate in that as a partner. Government is a willing partner, with the announcement of \$25 million and \$40 million in the recent budget, and we applaud that. But how willing is the banking industry to participate with that industry in financing those projects?

Those are my three specific questions.

**Mr. Marion Wrobel:** Mr. Chairman, let me make a couple of opening observations.

A number of those questions are very bank-specific. They need to be answered by an individual bank as opposed to the industry.

On the question of assessing risk in AgriStability, every bank will look at that program and decide how that adds to or contributes to risk mitigation.

In terms of what we might suggest for redesigning that program, I don't know if this is a good venue, or if offhand we can tell you what needs to be done or what we would suggest, at this point, to do to that program. But I will let you know that we do meet with officials on a regular basis, and these are the kinds of things we do discuss.

So it is important, and it is something that we will be taking forward, as we do with a number of other things. I think that is a better venue...that we can prepare to have those discussions.

We didn't come here thinking that we were going to give that kind of a suggestion to you.

• (1650)

**Mr. Francis Valeriote:** Can you share it with us after this?

**Mr. Marion Wrobel:** Once we have our discussions, we can share whatever thoughts we have. That wouldn't be a problem.

But on the others, I think it's very much what an individual bank does in assessing the role of the product, the role of the program when it looks at risk, what its own succession planning programs are, and how individual banks deal with those who are in the biofuels and biomaterials industry.

I don't know if any one member can answer all three questions, or if anyone can answer one of them...

**Mrs. Gwen Paddock:** I'd really like to answer number three.

When you think of agriculture biotechnology and clean technology, that's actually pretty exciting when you look at what the opportunity is. For the Royal Bank, we're actually developing a strategy on how we can get ahead of our competition in meeting the needs of companies or individuals who are in that space.

I also think when you put together the topic, being young farmers, the bright light, I think, in the agriculture and agrifood industry is agriculture biotechnology, and some non-traditional uses for agricultural products.

To answer your question, yes, we see it as very much an opportunity, a growth opportunity, for the industry and then also for our portfolio.

**The Chair:** Okay, that's—

**Mr. Francis Valeriote:** Mr. Wrobel—just briefly, Mr. Chair, if I may—I don't mean to be confrontational, but is possible for you to undertake to...?

I'm not satisfied with the answer that you don't feel like you can share that with this committee. This committee actually encourages people to bring that kind of information so that we can share it with the minister and have a discussion in a collaborative way.

I'm wondering if you could undertake to give us that information in a couple of weeks.

**Mr. Marion Wrobel:** Mr. Chairman, I don't want to suggest that we don't want to be cooperative on that, but we did not come here... I mean, we don't have an industry position that I could say to you right now, here's what we think of that particular program. We haven't done that. If I were to provide an opinion, I don't know if all of my members would share that right now.

I simply would say, yes, we do deal with officials on a regular basis. Where we have some concerns about particular programs, we do bring that forward.

**Mr. Francis Valeriote:** Would you share those with us?

**Mr. Marion Wrobel:** To the extent that we do have concerns that we bring forward, I think we can share them, or if we have a position, we can share that.

**Mr. Francis Valeriote:** So will you undertake to show us that in the next two or three weeks?

**Mr. Marion Wrobel:** I don't even know if we will have a position in the next two or three weeks. I'm simply saying that I was not prepared to answer that question right now. If we have something that we can share with you, we will do that.

**Mr. Francis Valeriote:** All right.

**The Chair:** Mr. Storseth, five minutes.

**Mr. Brian Storseth (Westlock—St. Paul, CPC):** Thank you very much, Mr. Chairman.

I'm glad that Mr. Valeriote is happy with and applauding what we're doing. I just wish he'd start voting for what we're doing as well.

At the end of the day, Mr. Funk, you know, I hear you say that we need to think ahead and have a strong business plan. No offence, but I don't know too many people who would look at a strong business plan on a farm and still invest in that farm in today's day and age. But we still need these guys. We still need our agriculture producers. We still need our smaller farmers as well.

We've had the Canadian Pork Council, and everybody at the Meat Council, and the cattlemen, and they all say the same thing: their number one issue is cashflow in today's day and age. We were just hearing today about more issues about cashflow. I'm not trying to be confrontational, but I ask you this: what is it your industry is undergoing to assist in and alleviate this cashflow problem as much as you can, on the good business practices that are undergoing with some of our farms, or many of our farms?

I mean, I sit down with these farmers today, and it is a real misnomer for people to think that farmers go out there and plant their crops and then pick them off and then end up balancing the books at the end of the day. These guys know their input costs down to the dime before they ever plant it. They're some of the best businessmen I have in my constituency, running some of the least profitable businesses.

So what is it that your industry is doing? In conjunction with the government, how effective are some of these programs? We've put out hundreds of millions of dollars to help with transition programs and the APP, but I would like your reaction on how successful these programs have been.

• (1655)

**Mr. Bob Funk:** The first part of your question is what do we do to ensure that we are seeing a good business plan, that we understand a good business plan when we see one, and how do we respond to it?

**Mr. Brian Storseth:** No, I have no doubt that you know a good business plan when you see one, but there are fundamental changes going on within this industry. How is your industry assisting in the issue of cashflow right now? We've heard that you're getting ahead of the game. We've heard that you guys have been on top of things. Well, what are some of the details that you are doing, and how successful has it been in conjunction with the government programs?

**Mr. Bob Funk:** I think probably a bigger piece of the answer to the question you're raising is this: when we see a business plan, what's our response? Every balance sheet and every business is going to have certain categories of assets, certain categories of liabilities. You have to line up the liabilities with the categories of assets and then set a debt repayment structure that enables the business to flourish as best it can. For example, if you're buying land, you don't want a five-year repayment program. You want maybe a 25-year repayment program.

It's a question of a number of things that we all build into our products. The first thing is what is the useful life of the asset, and how do we best accommodate what the length of the loan should be? A second thing could be that when a business undertakes an expansion, is the cashflow going to be impeded for some specific period of time? I'm adding  $x$  number of head capacity to my hog barn and it's going to take me six months to generate the revenue from that. Is it possible that we can defer principal payment for a period of time? That's an example of one of the things.

These are the things we think about. What is the business going to do physically to make happen what it wants to have happen? What are the categories of assets involved? How quickly will the revenue begin to flow against when the costs have to be incurred? Then we line up the loan so that we give a package that gives flexibility at the front end to enable the business to get started.

A business has to be viable. It ultimately has to have the capacity to service the debt that it places against it. But we can do certain things at the outset of some of these projects to expedite getting them moving.

If you're asking me what key thing we would do, I'd say probably it's how each of us address the need to be flexible up front to get the business rolling.

**Mr. Brian Storseth:** I mean, I understand how to assess a business plan, and I understand what a business plan is. But when we're talking about cashflow, what are some of the changes you have made in your industry, up front, to make things more flexible for farmers today so that they will have that cashflow, so that they're not having to worry about whether or not they can access their line of credit or enough of the line of credit to put their crops in?

**Mr. Bob Funk:** I thought I'd already said that, but in any case, one of the things we will do when, for example, a new project is undertaken, is that we'll say, okay, for a year there's going to be no cashflow from this, so we need to put a loan into place. What are we going to require in the way of payments? Year one, it would be interest only, or year one, nothing; we'd build it into the rest of the loan.

We have some tools like that, and we can and do use them with projects when they are put together.

**Mr. Brian Storseth:** But you don't do this for all farmers. Let's be blunt; you don't do this for all farmers. What are some of the factors you will look at when you're assessing how flexible you're going to be up front? Age: is that one of the factors you're looking at?

**Mr. Bob Funk:** No. We'd be looking at—

**Mr. Brian Storseth:** Value of the land?

**Mr. Bob Funk:** —the management capability of the business to physically do what they say they're going to do, at their ability to stay on plan if they set a budget for costs. If you see excessive overruns, then essentially you're not going to get performance the way you wanted it.

**Mr. Brian Storseth:** So then, with Mr. Hoback's situation, where a quarter of land in our area in some places is costing you \$200,000 to \$250,000, there's no way these guys are walking up and showing you that they're going to plant hay on that quarter of hay land that they're buying.

I mean, where...?

• (1700)

**Mr. Bob Funk:** Well, that's the management kind of strategy and tactics that they have to bring to it: what's my best opportunity for revenue from this land? We would look for them to do that. I'm not going to tell you what you need to grow on that acre of land, but if you want to buy it for \$8,000 an acre, then I would need to see from you what your revenue generation plan would need to be to make that acre pay.

Now, maybe it's in conjunction with ten other acres that you already have. We certainly see projects like that. If it's a project that's brand new, then it would take something stronger and a little more extraordinary to make it pay.

**Mr. Brian Storseth:** All right.

Thank you very much, Mr. Chairman.

**The Chair:** Thank you.

I had Mr. Tweed next, but I see that Mr. Lemieux is here.

You are next on the list, if you want to be. You're last.

**Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC):** Actually, I wasn't prepared for a question; I hope one of my colleagues is.

**The Chair:** Does anybody have a last question?

You'll be the last questioner.

**Mr. Bev Shipley:** Thank you, Mr. Chairman.

I just want to follow up a little bit, because there's something I'm just trying to understand. In Ontario, where I live—I appreciate the fact that Ms. Paddock came from that part of this great country—it becomes a bit of mixed messaging. We sit in the committee and we hear that there are crises all over, in different sectors. We know...and this is not a statement of not knowing that; in fact there are, and there have been, and there will continue to be. It seems we can't get agriculture to fire on all eight cylinders at once. That's not new; it just seems to be a part of it.

In your portfolio of lending, is there a balance between supply management and non-supply management?

I wanted to ask Ms. Paddock first.

**Mrs. Gwen Paddock:** Sure.

Actually, we don't purposely balance it, but just by virtue of the diversity of agriculture across Canada, it gets balanced. In B.C. there'll be a fair amount of supply managed. Through the west it's more grains and oilseed crops. Into Ontario it's very diverse, even into greenhouses.

So the portfolio is quite balanced and not heavily weighted towards supply management or non-supply management. Again, it's just by virtue of the different types of agriculture we have across the country.

**Mr. Bev Shipley:** Does anyone else have a comment regarding their area or their bank?

Jon.

**Mr. Jon Curran:** I can comment.

Certainly, to Gwen's point, there is natural diversification in the industry, and we inherently get that same diversification in our portfolio. There are no specific mandates or policies that say we will have to have a certain percentage in a certain sector or not. So I would say we are well diversified, and we have exposure to all types of businesses, as Gwen mentioned—supply managed, greenhouses, grains and oilseeds, beef, and hogs.

**Mr. Bev Shipley:** When you have beginning farmers coming in and they're talking about a business plan and the background, I understand the discussions that go on with that. Is there a particular focus on competitiveness? That's really what we're talking about. We just finished a report on competitiveness. This is actually the follow-up to that to help us understand the beginning farmers and to make sure we have an industry that will be competitive and viable not just for the future but for the short term, medium term, and long term.

With that, do you have farmers who come in who are focused on concerns of competitiveness in the regulatory aspect of government policy? We can't compete, because the regulations we have in Canada are different from those we have with our major competing consumers. I have a motion that was just passed on Friday that deals with that. It seemed to be a big issue, and certainly had the support of all the industry across the country on that.

Or is there an issue that talks about, "Well, we don't get enough dollars in the mailbox to be viable"? Or is there a discussion that agriculture is about the innovation that we see, the light at the tunnel—it's not the train coming, by way—and that we have an opportunity in agriculture.

I just see a growth in it. I see a growth because...and I don't know, but we used to grow crops for food. It's interesting; now we grow it for energy. We grow it for industry. You know, I've met with farmers that I've sat down with at round tables that have never mentioned about dollars in the mailbox; very exciting.

Do you hear any of that in your discussion, or is there a priority with the young farmers, when they're talking to you, about those any of those issues?

● (1705)

**Mr. Jon Curran:** Maybe I'll just interject, because I've had lots of those conversations recently in the field.

When the new young farmer comes in to talk to us, they're very optimistic. They're not coming in to talk to their banker about regulatory issues or dollars in the mailbox, as you've said. They're coming in saying, "I have a plan. I have a dream. I want to be in this business." It's about team work. It's about working together to say, "How can we make this come to fruition?" We sit there as bankers to act as advisers, as we've mentioned before. We're one of many advisers at the table when they come to us. But our goal is ultimately to try to help them realize that dream, where it makes sense. Provided they provide us with a viable business plan, we'll support them accordingly.

**The Chair:** Mr. Hoback, you had one quick question.

**Mr. Randy Hoback:** Yes.

To tie into your advisory role, when you're doing your forecast, where are you pegging your interest rates at, and where are you pegging your dollar at?

**Mr. Jon Curran:** Do we have the crystal ball?

At the end of the day, there are lots of economists out there. We're bankers. We will seek third-party experts, at the end of the day, and their forecast.

**Mr. Randy Hoback:** So what's that number?

**Mr. Jon Curran:** At the end of the day, it continues to change. I think all the economists would generally agree right now that we're looking at a par dollar in the short term. In the long term, I'm not entirely sure.

As far as interest rates go, the economists are saying we're going to see probably another 100 to 150 basis point increase to the end of this year, and then an additional 100 to maybe 200 next year. So you want to take that into account, using more of a longer-term interest rate when you're assessing those business plans. Typically we'll add a couple of percent just to sensitize it to say, "Okay, what if?" We'll run a what-if scenario and ask, if it did get this high, what would be the impact?

**Mr. Randy Hoback:** As we come out of the global economic situation and into recovery, I know there has been a risk premium put on a lot of these loans. Would that risk premium start to decline also?

**Mr. Jon Curran:** At the end of the day, the market will dictate where pricing should be. There's a lot of competition in the financing industry, not just between the banks that are sitting here at the table but also from Farm Credit, the credit unions, and other suppliers of credit to the industry. The market will drive the price; it will dictate what price needs to be charged.

For the most part, while costs have increased, there hasn't been that much of a risk premium put on because of the economic downturn, specifically in agriculture.

**The Chair:** Thank you, Mr. Hoback.

Lady and gentlemen, thank you very much for being here today, at our first official meeting on the future of agriculture. We heard a lot of good information and I thank all of you for taking the time to be here. I'm sure we'll see you back here in the future.

Thanks again.

**Mr. Marion Wrobel:** Thank you very much, Mr. Chair.

**The Chair:** We have some committee business to deal with.

Mr. Eyking.

**Hon. Mark Eyking:** Thank you, Mr. Chair.

As many of you know, the big thing that has happened in the last week is the volcanic eruptions in Iceland. Many of you might have been to Iceland. Iceland doesn't have a large population. There's only a couple of hundred thousand people, but they have their own small agricultural industry and it's very important and vital because of where they're situated. They have mostly livestock—sheep and cattle. It's not large, but it's important to them.

What has happened there is that the ash has pretty well poisoned the forage that they're using outside, and their land is probably not going to be suitable for at least six months to a year.

Does everybody have a copy of my motion? I'll read it: that due to the eruptions of volcanic ash in Iceland, livestock farmers in the surrounding area have had their feedstuffs contaminated and new forage may not be safe for months or years. The committee recommends that the Minister of Agriculture and Agri-Food approach the Minister of Agriculture for Iceland to see if Canadian forage assistance could help their farmers in this troubled time.

This motion was put together today because of the serious situation, and as we're probably not meeting this Monday, I'm asking to get unanimous consent on this as presented.

• (1710)

**The Chair:** Okay.

As Mr. Eyking said, because there isn't 48 hours' notice, we do need unanimous consent.

Do we have that?

**Some hon. members:** Agreed.

**The Chair:** I think it's a pretty self-explanatory motion, but is there any discussion on it?

Seeing none, I will call the vote on the motion.

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

**The Chair:** Pierre.

**Mr. Pierre Lemieux:** Thanks, Chair.

Given that we're on the subject of committee business, at the last meeting we had passed a motion regarding state enterprises. That was put forward by Mr. Atamanenko. It passed, and it was asked that it be reported to the House. So it will be reported to the House.

You were very quick with the gavel, though, because the meeting ended before I had a chance to pursue that we would like to table a supplementary opinion to that.

**The Chair:** I think we had...or at the time, I remember, Mr. Easter agreed to that, so...

**Mr. Pierre Lemieux:** Oh, did we?

**The Chair:** Yes.

**Mr. Pierre Lemieux:** You're not talking about the main report; I'm talking about the motion.

**The Chair:** No, I'm talking about the motion.

It was asked by you, Mr. Lemieux—

**Mr. Pierre Lemieux:** That was after the meeting.

**The Chair:** —and also, Mr. Hoback e-mailed me afterwards.

**Mr. Pierre Lemieux:** Oh, that's fine, Mr. Chair.

**The Chair:** I believe any member can—

**Mr. Pierre Lemieux:** If you think this has all been arranged—

**The Chair:** Yes.

**Mr. Pierre Lemieux:** —then perfect. Forget I raised it. That's fine.

**The Chair:** Okay. Very good, then.

Other times you accuse me of not banging the gavel soon enough.

**Mr. Pierre Lemieux:** Yes, all right. No problem, then. That's good.

**The Chair:** Very good.

Mr. Storseth, I had you on the speakers list.

**Mr. Brian Storseth:** Thank you very much, Mr. Chairman.

As the committee's working so well today, I thought I'd bring up an issue that's been raised in the last couple of days with regard to the grain companies starting to register their securities on operating loans or on the input cost loans that they're giving. This has potential for a lot of trouble. It could be very difficult for some of our grains and oilseeds farmers in particular.

So I'm giving notice that I'll be putting a motion forward to have CAAR, the Canadian Association of Agri-Retailers, come forward so we can talk to them about this and see if this is something they are seeing. I think it's very important, especially after just finishing a study on competitiveness, that we make sure we keep the industry as competitive as possible, and that means being there for the independents as well.

I think it would be very relevant to have CAAR come forward and tell us whether or not this is an issue they're seeing with many of their members.

**The Chair:** Okay.

Just on our travel and what have you, I think everybody should note that we can deal with some committee business if there's an urgent need or if something comes up. I would stress, however, that since our travel is pretty intense timewise, if any motions or other business are brought up while we're travelling, each member should try to at least find out if there's unanimous consent so that we can limit debate.

I guess how I'm going to deal with it, if it doesn't appear there's unanimous debate for a motion or something, is that I'm basically not going to entertain it. You know, we have a limited amount of time. But if something comes up, I just want to stress that...

Take, for example, this motion we just dealt with from Mr. Eyking. If we hadn't had unanimous consent today, we could have dealt with that on Monday or Tuesday or whatever.

Just so we're clear on that; so your motion—

**An hon. member:** [*Inaudible—Editor*]...Mr. Chair.

**The Chair:** Certainly. We're on committee meetings. I don't see any reason why not.

Now, I'd never argue with you, Mr. Storseth, as far as the rules and procedures go, but I believe we have the powers to...

Mr. Hoback.

**Mr. Randy Hoback:** Just to speak to the motion, from what I understand, what's happening is that farmers, when they're doing their cash advances, have to go to their elevator agent to get him to sign off, and he's taking first place in security, which basically means the banks won't sign off. Or if they do sign off, that means the farmer can't go to other input suppliers and buy inputs. He has to buy them from that individual only.

That's the issue that Brian's trying to highlight.

**The Chair:** Without getting into debating the motion—it hasn't even been tabled—would it be your intention, Mr. Storseth, to have them here at committee when we're back in town on the 5th?

•(1715)

**Mr. Brian Storseth:** If we're going to deal with this issue or we're going to look at it, I think it's going to have to happen quickly. I think the first logical step is to talk to CAAR and see what their position is and see what their solution is. The people I'm talking to don't necessarily know what the solution is either.

**The Chair:** My advice would be to table the motion so that we have 48-hours' notice, talk to our colleagues around the table, and, if there's agreement, then we can have them here on the 5th. The sooner we do that, the sooner Isabelle can invite them and have them here.

Okay?

If there's nothing else, I'll adjourn the meeting.

We'll see everybody in Kelowna either Sunday night or Monday morning.

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