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**EVIDENCE**

**Wednesday, March 28, 2012**

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**Chair**

**Mr. Larry Miller**



## Standing Committee on Agriculture and Agri-Food

Wednesday, March 28, 2012

• (1530)

[English]

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

I'd like to thank our witnesses today, Mr. Burt and Mr. McInnes, and also by video conference, Mr. Robert Seguin.

I hope I pronounced that right.

**Mr. Robert Seguin (Executive Director, George Morris Centre):** That's fine, thank you.

**The Chair:** There's a hockey player by that name who plays for my favourite team.

Anyway, due to possible problems with technology, Mr. Seguin, we're going to start with you. So you have 10 minutes or less, please.

**Mr. Robert Seguin:** Thank you very much, Mr. Chairman and members of the committee, for a chance to present on Canada's food chain. I'll make a very quick comment on the George Morris Centre, for everyone's awareness, talk about the food chain very quickly and some of the challenges and opportunities, and the concept of the value chain as a way of trying to address this, which governments in Canada and the industry itself are starting to do. And we'll talk about some future directions.

The George Morris Centre, as some of you may recall from the presentation last fall, is a national, non-profit think tank for agrifood policy. One of the areas we do work on is the value chain, the concept of the food chain and how to make it more effective.

Canada's food chain, from the farm gate all the way to the dinner plate, as some people call it, is sophisticated, competitive, innovative, and adaptable. But it is not quite perfect. There are issues of scale, depending on where you are in the sector and inside the food chain, where you are getting the investments, who is investing, and whether they're capable of handling some new innovations. The regulation of the food chain varies, depending on where you are, what products you're in, and what history has occurred in those products, and there are issues of what the non-food sector has in terms of bringing either competition head to head or competing for that consumer dollar.

There's a good deal of evolution happening, both at the food retail and food service end, which most consumers see all the time. That's leading to changes down through the chain, back through the processing side, into the farm community, and into the input sector. The whole concept of traceability is one way of thinking about how people's attention to the food chain has changed over the years.

I should note that competition exists everywhere in the food chain to a greater or lesser extent, and in some cases it's very ruthless. In some cases it's dominated by several large players.

I have just a few quick stats, and I'm sure my colleagues will present a far greater amount of information. I should note that recently Agriculture and Agri-Food Canada released an overview for 2012 on this whole issue, and it's very good. I'll try not to replicate it, but \$87 billion is an estimate of food retail sales in Canada, and the food service sales are about \$48 billion to \$49 billion. These are the large employers, when we add it all up, for the Canadian food system, and they have a dramatic impact across all regions of Canada.

On the other hand, for the food chain, the farm community, the food processing retailers, food service and others have very different historical developments, some smooth, some not very smooth. Many players that used to exist have ceased to exist. Consolidation has occurred across the entire food chain, as well as increasing scale for some and increasing innovation for others. There are very different attitudes up and down the chain, and some of that's been driven by some of the regulatory context in which the participants operate.

There are also differences between the chains, when I think of the food service and food retailing or the independents, and the links back in terms of how they link to the processors and the farm community. And there are also new competitors. I'm sure my colleagues will speak to this, like the issue of other stores, such as Target, coming into Canada, or to what Walmart has done to the food retailing system in terms of changes. There's the use of grocery stores and food service sales at gasoline stations. Shoppers Drug Mart is now getting into a certain amount of actual food retailing. These formats are shifting, and it shows the kind of continued evolution of the food chain and what it means up and down.

There's also been a tremendous shift in consumer demands for fresh product, for different types of packaged goods, for pricing, and goods from outside of Canada. There are also shifts in demographics, both in age and ethnicity, and a need for different approaches to meet these different types of consumers in terms of driving back some differences up and down the chain.

One thing that has changed in the last two or three decades, particularly in the public policy for agriculture and food, is the growing involvement of the entire food chain in all these discussions, whether it's on a specific issue or on the broadest context of agrifood policy. The challenge is that the capacities differ between the players. Their histories and institutional memories are not identical, and how the markets affect them are also not identical. Both work for the past efforts and where they're going in the future.

● (1535)

There are different ways of responding to environmental pressures, social pressures, community pressures, community issues, where a community wants to be with certain food products or what they don't want, and how you shift the roles and linkages between them. How the sector responds and how the entire food chain responds has not always been consistent. There have been some very diverse views out there in discussions between one part of the chain with the other, some of it driven by the regulatory context, which is part of the history of how these things have changed.

Over the last several years, spurred both by industry and by government, there has been a greater focus on what we call value chains, in which they try to find market opportunities at the enterprise level, not trying to solve all of it at the industry level, but building up from enterprises, special value chains within sectors and within subsectors.

There is a whole concept now of value chain management, which the Government of Canada, provincial governments, and industry groups have supported. They're trying to learn more about how this works and how other jurisdictions have worked the value chain to get greater profitability, better viability across all players, not just some players in the food chain, and how technology, different attitudes, and different awareness might affect it.

Again, there are some limits on capacity, limits on adaptability, who has the money to reinvest, and who has the time and effort to think differently about an issue in which they can all participate. Where in the past they would have been in conflict, maybe in the future there should be greater trust and responsiveness.

The George Morris Centre has a value chain management centre, and we've done this business for about four years. We've done some work with the Canadian Agri-Food Policy Institute, which David McInnes represents. A recent paper released recognized these challenges through both our workshop efforts and our analysis. Past adversarial attitudes, driven by conflicts in history about bargaining power, about attitudes, about differences in how to achieve the same goals, and a lack of trust in the sharing of information have been real challenges. However, that can be overcome, and there have been examples both in Canada and across the world where the food chain has been able to achieve better results for consumers and for themselves by better cooperation, better linkages, and better trust.

A key focus for value chains is how to improve that over time, step by step so that it can work, not only for just one small commodity but across commodities. Still, we have to realize that the sector is complex. One size won't fit all. There have to be different ways of looking at it and different measures of how you see this being successful. Then look at these results and try to find the ones

that work the best, and try to keep replicating the successes and avoiding the failures.

My view, and the view of the centre, would be that there is a great opportunity here to improve the trust, the comfort, and the relationships between those up and down the chain. There is an opportunity for better information sharing, better awareness of what the consumer really wants, and a recognition of the complexity in trying to learn how to make these value chains real, not just conceptually or just by one little pilot, but how to make them real.

I will make one last plug. Mr. Chairman, early next week the Government of Ontario, aided by the Government of Canada, is sponsoring a value chain innovation forum here in Mississauga. We're part of that. It will bring in experts from across Canada, across the United Kingdom, and Australia to talk to people on how to make the system really work, how it was achieved in the past and how they can actually make it work here.

Thank you, Mr. Chairman.

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

Now, from the Canadian Agri-Food Policy Institute, Mr. McInnes, for 10 minutes.

**Mr. David McInnes (President and Chief Executive Officer, Canadian Agri-Food Policy Institute):** Thank you, Mr. Chairman.

[*Translation*]

Good afternoon.

I represent the Canadian Agri-Food Policy Institute, an independent, non-partisan forum. Our task is to create a dialogue on pertinent issues and present alternative solutions, so that Canada's agri-food sector can reach its full potential.

[*English*]

Mr. Chairman, this is about creating a more prosperous agrifood sector. What are those essential conditions to create jobs and profitability across the sector? Our consultations revealed that achieving a great food future requires three things: transforming how we collaborate; linking economic success, people's health, and environmental sustainability to create opportunities; and third, integrating policies and strategies to support these shifts. These ideas are based on a piece of work we did in 2011 entitled *Canada's Agri-Food Destination*. In short, our work is about supporting and nurturing food systems.

The food system includes supply chains and how they work better together. Moreover, it's about how supply chains depend or are impacted upon so many others who are essential to success every day. Three levels of government, financial services, information technology providers, nutritionists, educators, ports, transport, logistics, human and animal health sectors—the list does go on. Taking a food systems approach is about how these players work better together so that we can truly be at our best to serve the consumer interest.

The diagram that we've submitted to you, which is submitted for the record, offers a perspective.

Food links government and supply chains. On the right hand side of the diagram are likely policy priorities of government. On the left are suggested agrifood priorities. I'm going to quickly walk through this for you to bring it to life.

Let's start with health. For governments across the country, the major goal is reducing health care costs. We need to increase the focus on prevention. Some 40% of health care costs are driven by chronic disease, and diet is a key driver of reducing chronic disease—90% of type II diabetes, 80% of heart diseases, could be prevented through improved diets, among other lifestyle changes.

Satisfying the growing interest in nutrition and what we eat is the opportunity for the agrifood sector. Pulse Canada, for example, wants to create a market pull for pulses, beans, and lentils as an “ingredient”. By adding pulses to pasta, for example, they can double the fibre and increase the protein by 25%, as well as lowering the carbon footprint. Working with researchers, culinary schools, and health professionals, Pulse Canada is trying to nurture the demand for healthy pulses.

Vancouver has a food systems strategy. It's linking the viability of local farmers, of which there are 2,600 in metro Vancouver, to produce healthy foods like fruits and vegetables for its residents. We need to identify how Growing Forward 2 can be linked to health strategies to build on this potential.

With regard to trade, Canada is expanding market access for exporters. Access opens the door, but fostering demand is crucial to our commodities and value-added sectors. To compete against low-cost exporting countries and premium exporters, we need foreign consumers to want to buy Canadian even more. Distinguishing Canadian food is the imperative. Price, quality, safety, supply reliability—these are very important, but consumers, retailers, and processors are increasingly looking to how food is produced, from environmental footprints to hormone-free attributes. Export success will likely depend on delivering upon such attributes. Traceability, for example, is an effective tool that can demonstrate this value proposition.

The bio-economy is surely going to be the innovation engine of the future. Creating business opportunities is a priority, and this is the platform for generating new revenues, reducing inputs, and lowering the costs for farmers. Take a Manitoba potato processor. It now diverts its potato waste to a biotechnology company, and that's used to create biodegradable plastic resins used in packaging and mouldings. That's a win-win.

In the livestock sector, bio-digesters can generate gas and electricity from manure, reducing energy costs and generating new revenues by selling the electricity to the local grid.

The University of Saskatchewan has discovered a bio-pesticide originating from mustard seed.

• (1540)

We need to systemically look at every food compound for its potential bio-applications. Improving the viability of producers, in part by deploying bio-solutions, may also help to render certain producer-directed risk programs less necessary, such as AgriStability.

Along with some improvements to the efficiency of such programs, the savings might be directed to help expand innovation and R and D. We see this as a proactive investment. Under the environment heading, it's important, and managing water and carbon is the priority. With climate change, this is essential to our remaining a reliable food supplier.

Research is vital in ensuring that farmers can remain adaptive. For example, they can develop ways of growing heat- and drought-resistant crops. Retailers and processors are setting water and carbon reduction targets. They are reaching to the farm level throughout their chains to help producers in this effort. Water and carbon will continue to shape environmental and competitiveness strategies for years to come.

If being competitive is the goal, then fostering an attractive business climate is the priority, and regulations are a big part of this. Regulations have a life cycle. We should be asking, for example, whether regulation X is still keeping Canada safe and competitive. Constantly harmonizing, updating, or embracing best practices is the key. Change is possible, as we all know from the major step to improve the regulatory environment between Canada and the U.S.

Commercializing publicly funded research and development relies, in part, on well-functioning public-private partnerships. Doing this can mitigate innovation risk. Let's look at a healthier mushroom, for example. A large processor in Ontario worked with a mushroom grower and a publicly funded innovation centre, Vineland Research, to create a more nutritious mushroom for use in sauces and soups. The processor benefited because it delivered a desired product to the marketplace. The grower benefited because he had a processor with an eye to the customer. The innovation centre benefited because it now had the supply chain to deliver commercialization success. Collectively, they reduced each other's innovation risk.

Can flaxseed prevent heart disease? There is a clinical trial going on right now that is trying to find out. This effort involves Agriculture and Agri-Food Canada, St. Boniface Hospital, the University of Manitoba, and Health Canada. A processing company is keeping a close eye on this.

A research priority could be to systemically examine food compounds for such new product ideas.

Food connects common linkages. Turning to tourism, Canada's "Canadian food" can help brand Canada. There is no surprise, given the season, that harvesting maple syrup in Quebec is profiled on Tourism Canada's website. Promoting regionally grown food is good for tourism, local economies, farmers, processors, and restaurants. The strategic question here is, what's holding back local food from truly defining Canada as a food destination of choice? I would think that every region across the country would have an opinion on that.

To sum up, food spans many policy domains. The players are connected. We can create economic opportunities. We can address people's health. We can improve the sustainability of Canada. We need to make it happen to maximize this. This is about creating a food systems strategy. Developing targets and metrics will help to galvanize this. The Canola Council of Canada has done so.

We're not suggesting that government dictate what supply chains do; each supply chain should create its own targets. Government can inspire change by laying out a broad set of targets. It could also do so for its own domains of activity. This is not about crafting vision statements. We need a dialogue today about what should be our country's agrifood destination. This is about where we want to end up.

We believe we have a great food future. What do we want to achieve? Is it to double the value of our exports by a certain date? Should we be supplying a certain percentage of our own food? What would it take to do so? This is the conversation that is needed so that policy and practice can be even better aligned to drive performance.

Thank you very much.

● (1545)

**The Chair:** Thanks, Mr. McInnes.

We now have Mr. Burt from the Conference Board of Canada.

**Mr. Michael Burt (Director, Industrial Economic Trends, Conference Board of Canada):** Thank you.

Thank you for inviting me here today. For anyone who's unaware, the Conference Board is a non-profit, non-partisan think tank based

here in Ottawa. We do research in a variety of areas, including public policy, organizational performance, and economic forecasting and analysis.

We were asked here today to talk about the food value chain. When we think of the food value chain, the four main segments we think of are essentially agricultural primary producers, food manufacturers, retailers, and restaurants. But it's also important to remember that there are the connectors between those main segments. We have the transportation network. We have wholesalers. It's important to look at the whole supply chain and how that relates in terms of the success of the agrifood sector here in Canada.

Now, when we talk about the agrifood sector, one of the things we always like to point out is that it's not a monolithic thing. There are very different market conditions in different segments of the industry, such as, for example, capital intensity. Farming is a very capital-intensive business. It becomes much less capital intensive as you move down the value chain. Retailing and restaurants are much less capital intensive. So the market conditions are different in that respect. Their need for capital is different.

With regard to the degree of competition and market power, Mr. Seguin already touched on this, but probably the most concentrated part would be the retail segment, where we have three grocery stores accounting for about 70% of the retail sales in Canada, but even there, there's a large amount of competition going on. There are literally thousands and thousands of small retailers. You have competition from other major chains outside the grocery store network, things like Walmart and Target. So there's a high degree of competition in that segment.

Other segments also face different types of competition. For example, manufacturing varies very much depending on what type of product you're talking about, but there is some ability for market power there through things like branding. In the case of restaurants, again, it's a very fractured market with many players, but players have some ability to create value through things like their menu offerings, their location, and the degree of service they're offering.

Finally, farming is often thought of as a commodity-driven industry. It is, broadly speaking, but there are many niches where farmers have been able to create value by not selling a commoditized product and starting, essentially, to create some brand power and some value associated with the products they're creating.

Finally, one other big difference across the value chain is the degree of volatility in output prices and input costs for the industry. At one end we have farmers' very volatile prices, and at the other end we have retail and restaurants where prices are much less volatile. There is much less need to control the volatility the industry is experiencing at that end.

One of the things we have had to work with, a challenge we have had to address when we've been doing research on the agrifood sector, is that it is a viable sector, and in Canada it is a growing sector. It is experiencing modest growth. Contrary to perceptions, it's not a sector that is shrinking or under significant threat. That said, there are obviously individual companies in the sector that have faced their challenges, and the number of players in the industry is shrinking. So what we're seeing is fewer players that are bigger. There's a consolidation process going on.

What's driving this growth, this success of the industry? There are a number of factors. First we have our natural endowments here in Canada, our water and our land. These provide us with the resources necessary to be major players on the global stage in terms of agrifood production. Just as an example, we are among the major exporters of major foodstuffs such as wheat and canola and soybeans, and we are the largest exporters for a number of specialty products such as oats, peas, and lentils. So we are already major players on the global stage, and there is certainly the opportunity to grow our presence.

Another big factor of support for the industry—and this is one reason the industry has had slow, stable growth over time—is that we have the domestic market to support the industry. Import penetration in the industry is relatively low. Much of the industry is really reliant on the domestic market. With the exception of a couple of key segments, such as crops, seafood, and some red meats, most of the industry is very domestically oriented. So there's that slow, stable growth, where you have, say, population growth, a reasonable level of wealth, and income growth. It means that the industry has a stable base from which to operate.

• (1550)

But where's the growth going to be going forward? Emerging markets certainly have a growing presence. They are some of the factors behind the global rise in food prices we've seen in the last few years. In big marketplaces like China, India, and Brazil, their populations are growing, wealth is growing. They're demanding more food, better-quality food, and a greater variety of food products. Canada has the potential to meet some of those demands, but how do we fully leverage these opportunities?

As Mr. Seguin touched on, we do a lot of industry analysis, but our success is determined at the firm level. What are individual companies here in Canada doing to succeed? As part of our research on the agrifood sector, we've done a number of case studies on different success stories in the Canadian agrifood sector.

There are a variety of things, and they are often combined together. One of the things we often see is successful vertical integration with their supply chain, either upwards or downwards. So they're dealing with their suppliers and they're dealing with their customers. This may be through direct ownership, where they own

additional parts of the value chain, or through partnerships, joint ventures, those sorts of things.

This allows a variety of benefits. For example, it allows diversification of products and markets. If you're making one thing for one customer through vertical integration, you can hopefully smooth out some of the fluctuations in your own business cycle. Maybe one particular portion of the agrifood supply chain is experiencing difficulties at one time, but it's very unlikely that the entire chain will be experiencing difficulties. So you can get the benefits of diversification.

Branding is an important issue. Are you making just a beef product, or are you making something that customers can know, recognize, and value? Do they understand that this is a consistent quality product that they will be able to buy on a regular basis?

There's product development. Are products being developed in isolation, or are products being driven by what is desired by consumers? What's possible at the producer end of things? Can we get together to understand the characteristics of our products and see how we can adapt them to the needs of consumer markets?

These are all ways that value-chain integration can help to improve the value we're creating with our agrifood sector here in Canada.

To sum up, agrifood has been a consistent source of modest growth for the Canadian economy over the last 20 to 30 years. Our natural endowments allow us to experience this growth—our land, our water. We need to understand and leverage those endowments to see how we can take advantage of the opportunities going forward, particularly in emerging markets. Effective management of our food value chain is one of the ways in which we can take advantage of those opportunities.

Thank you.

• (1555)

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

Thanks to all of you for keeping well under the time.

We'll move to rounds with Ms. Raynault. You have five minutes.

[*Translation*]

**Ms. Francine Raynault (Joliette, NDP):** Thank you, Mr. Chair.

I want to thank each and every one of you for accepting the committee's invitation.

My first question is for Mr. Seguin.

In your presentation, you talked about the increased complexity of Canadian consumers. Could you expand on that, please?

[*English*]

**Mr. Robert Seguin:** Thank you for the question.

On what Canadian consumers may want from their products, it's not just the taste but the packaging, long shelf life, the ability to have it at a price that is competitive to other importers, or in some cases to have it in the shape and form they want at any place and any time.

An example is the whole concept of fast food, where a similar product produced at any spot within Canada or the United States is identical. How to achieve that takes a great deal of complexity—consistently done and constantly done.

[*Translation*]

**Ms. Francine Raynault:** That means the production and processing industries must adapt fairly quickly to consumer needs. Basically, they must meet consumer needs if they want to sell their products.

[*English*]

**Mr. Robert Seguin:** Yes, but the challenge on the value chain is this. Do people truly understand what consumers really want? We've done analysis where we've talked to consumers; colleagues went to talk to consumers as they entered the grocery store. They indicated what they would buy as they entered and the differences were compared when they left the store. Their actual consumer purchases can vary considerably from what they said they would do. When challenged with it, they started to see some of the inconsistency.

In turn, you'll find that what some producers or processors think the marketplace will want, based on their understanding of consumers...when you really do the full analysis, you find that consumers didn't want packaging that large, they wanted it smaller, or they wanted it fresher, or they wanted it individually wrapped.

As my two colleagues said, there's a need to constantly re-evaluate how effective we are—what information is in the marketplace, who has that information to share up and down—so that everybody can participate and be better valued. A system whereby one partner uses that information to dominate the marketplace may have been effective historically, but in a very competitive marketplace like we have in Canada, with a lot of international competition, that's not a very good long-term strategy inside Canada.

• (1600)

[*Translation*]

**Ms. Francine Raynault:** Mr. McInnes, according to CAPI, consumer interests are key in a food system. How are consumers involved in a food system?

[*English*]

**Mr. David McInnes:** Thank you for the question.

The consumer is vital. At the end of the day, if a consumer is not buying a product, that's not good for the profitability of any player in the supply chain. I think the question for us is not to try to discover what individual consumers want. I'll leave that to retailers and restaurants and those who are monitoring the individual consumer's behaviour. What's important, though, is understanding how that information flows back and forth across each supply chain, because it's only through that sharing of information that the producer can produce what's ultimately required at the end of the day in the marketplace.

What we're seeing is an increasing use of communication. It may be growing more ethnic vegetables around Toronto to serve a growing, burgeoning ethnic population in Toronto. People are listening and trying to serve that new burgeoning demand. If the consumer interest is kept forefront at the producer level right through

to the retail level, then I think maybe we can be more nimble at serving consumers' needs. I think that's good for everybody.

[*Translation*]

**Ms. Francine Raynault:** I am from Quebec, and I represent Joliette. I have to say that grocery stores had to adapt to people from the outside who come to work on our farmland. Today, our stores carry certain types of food that were not on their shelves five years ago. Of course, I try those products, just as others probably try our maple syrup.

My question is for Mr. Seguin. In your presentation, you talked about the limited capacity to adapt, the regulatory context for adaptation and the conflicting historical goals. Could you elaborate on that, please?

[*English*]

**Mr. Robert Seguin:** Thank you for the question.

For example, if we have historically grown certain types of vegetables, with a regulated marketing system to help protect the producers in their negotiations with processors, retailers, then bringing in new crops, which they're not used to producing, and trying to think of how that's going to be managed...what are the production practices? What are the food safety practices? Are we sure those consumers will be buying it, or will they just test it out and then go back to their home products that are being imported?

David mentioned Vineland Research and Innovation Centre. It's an excellent example of trying to bring the science community, the producer, the processor, and retailers together to try to find ways of profitably producing it, marketing it, and being successful in the marketplace. But it's not always easy. It's also the case that only so many producers, so many processors, are willing to take on those risks early until their product has proven itself.

• (1605)

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

Mr. Zimmer, for five minutes.

**Mr. Bob Zimmer (Prince George—Peace River, CPC):** Thanks for coming to our committee today.

I just had an overarching question about the food supply chain in terms of our responsibility as government. We have to look at it from a top-down—and “top-down” is maybe the wrong word—or maybe more of a bird's-eye view of this. I think the food supply chain works pretty well right now.

There are some smaller issues, but I guess we need to see it from a long-term perspective. From your perspective, with production processing, distribution, with all those things in mind within the food chain, what are some concerns, possibly, that you can see in the future, where if we don't address them, they could be larger issues for us?

I'll start with Mr. Seguin and then go to the rest of the panel.



**Mr. Robert Seguin:** Thank you for the question, Mr. Zimmer.

I think I'll posit two different questions, challenges, to the government, both the federal government and the provinces. One is a challenge of scale. To satisfy the market demands of a large retailer, a large food service—Tim Hortons, Boston Pizza, The Keg—on a cross-Canada basis, such that they have the quality needed, needs a certain amount of scale at the production end and at the processing end to manage that and meet the needs. It requires that the consumers at that retailer or food service are satisfied continually and that the quality is assured, and, if necessary, even traced back with confidence to meet the government's needs. You need that scale, that investment, and investment in technology and management. Are we sure we're doing enough to help that?

At the same time, you don't want to do it in a way that disturbs the innovation in the system, having regional entrepreneurs, local entrepreneurs, trying something in a local market, or a very niche market that they can sell on a national basis. Is the regulatory system able to adapt to handle something that was not there historically? I use the example of certain new vegetables. If the production practices are different enough, do we have the regulatory systems that are adaptive enough, and do we have the management systems that are adaptive enough?

So it's a case of local innovation, regional innovation, and the ability to have scale when you're dealing with a national, even a global, marketplace.

**Mr. Bob Zimmer:** David.

**Mr. David McInnes:** Thank you very much for the question.

I think government is trying to do quite a bit to try to facilitate change, innovation, and competitiveness. I think, though, there's always room to ask the question, are we optimizing? For example, there was an effort made to enhance or elevate the omega-3 in milk, called DHA milk. I drove on the highway the other day and actually saw a big billboard advertising that. This was an initiative by the University of Guelph, the dairy industry, the Dairy Farmers of Canada, and Neilson Dairy, to actually enhance the micro-nutrient omega-3 in milk. It received a premium for that product in the marketplace of some 8%. So innovation is driven to seek out differentiation and profitability.

However, one of the challenges in creating this novel food product is that inevitably regulatory issues can stand in the way of speeding or accelerating that approval. We need to ensure that where we foster innovation on the one hand, the regulatory speed and approval is just as tightly interwoven, so that we can attract investment here in Canada and create an innovation hub around food. That's what we're trying to achieve by linking the players and linking policy across systems, innovation in this sense and regulation on the other.

**Mr. Michael Burt:** I would point out two things. One is on the international scale. Market access is a very important issue. Food is probably, more than any other industry, subject to various forms of barriers that are in place internationally. Just recently, and I'm sure you're all aware, South Korea finally allowed access to Canadian beef. How many years after BSE? Pressing forward on that market access issue in international markets is key to us being successful in international markets.

Domestically, I would agree with David in the sense that probably one of the biggest issues around the development of new and innovative products is ensuring that the regulatory system is able to quickly, whether it's feed for animals or additives for food...and a great example would be putting lentils into pasta. By moving away from the traditional food framework that we think of, food products, we should not be preventing companies from being innovative and making these experiments, making these improvements to our food, because the regulatory system is hindering them from doing so.

• (1610)

**Mr. Bob Zimmer:** That's good.

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

Mr. Valerioté, five minutes.

**Mr. Frank Valerioté (Guelph, Lib.):** Thanks to all of you for appearing today.

David, I'm going to start with you. Our party quite agrees with your proposition of a compelling food plan: a food strategy from gate to plate. We have been proposing it for years. It hasn't been forthcoming.

The Canadian Federation of Agriculture tried to come up with one. There are all sorts of different groups... I see it as the responsibility of the federal government to bring all of the stakeholders together and prepare such a plan, as they did in England, in Scotland, and, as you know, in New Zealand, but we have yet to have one here.

I first want you to comment on the need for that, and who should be the group for or the leader of this initiative. That's number one.

Number two, you made an interesting comment. You said that once the plan is prepared, we needn't necessarily have regulations or rules attached to it, and that it has to be a vision. I disagree with you somewhat, largely because there's nothing that compels the vision to come to fruition, if you know what I'm saying.

For instance, there has been a lot of talk about the unnecessary amount of salt in our diet and the need to reduce salt in a lot of the processed products out there. The government had an opportunity to do that and didn't. I spoke to some in government and they said, "Well, we want people to have their choices." It's an ideological thing: let them have their choices, right?

On the other hand, with respect to the railways, that would fall in your chart under trade and industry, I suppose, under increasing exports and improving competitiveness. For two years, farmers have been coming here saying they are getting ripped off by the railways. Nothing is happening. If you don't complement the plan with regulations and rules, nothing happens. I'd like you to comment on that latter part of my comment as well.

**Mr. David McInnes:** Thank you very much for the questions.

I'll start with the latter. We acknowledge that targets can be difficult things to set and to enforce. We're all supposed to be eating five to ten fruits and vegetables a day. Sometimes that doesn't happen, so targets can be inspirational as opposed to mandated.

On the other hand, targets can be highly effective. The Canola Council of Canada, for its sector, set a target of increasing canola production by 65% by 2015. They'll hit it. What they've done with that target is they've galvanized their supply chain—crushers, processors, growers, and others—in order to create a catalyst for productivity and profitability.

Should government be setting targets? That's perhaps part of your question. I think that's a discussion we need to have. I think we need leadership on the government side to try to reveal where it would like to go.... On the other hand, this is not to absolve the supply chains of responsibility. The supply chains need to galvanize amongst themselves to decide what they're going to do together. So there's a shared leadership here.

Also, frankly, researchers have a role. They need to integrate into the supply chains even more than they have. This is not a top-down approach that is necessarily from government. It is a collective approach as to how everyone can figure out how we can best serve the consumer, how we can improve their health, and how we can create jobs and profitability in the areas you're responsible for. I think that's the way we should do it.

I think you started with a question about food strategies, if I may take that on.

I'm originally from Nova Scotia. A rising tide lifts all boats, and the more that people are talking about strategies, plans, and our future—and we actually talk about a destination, not necessarily a vision—I think that's good, because I think the calibre of the discussion is actually starting to change.

The Conference Board had an event not too long ago that was called a food summit. What was fascinating was the constant reference to the need to nurture food systems. We're starting to talk about food systems rather than just supplier value chains. I think the language is starting to change, which is reflecting an understanding of the complexity of what's out there.

I think ultimately it's probably important that we all try to get together and come up with some common principles. We can't micromanage every single supply chain. That would be impossible. But common principles with metrics and objectives to drive behaviour? That's what we're shooting for.

•(1615)

**Mr. Frank Valeriote:** Do I have time for a quick question for Mr. Seguin?

**The Chair:** Very quick.

**Mr. Frank Valeriote:** Bob, how is the weather in Guelph?

**Voices:** Oh, oh!

**Mr. Frank Valeriote:** No, that's not my question.

My question is about your comment that competition has been dominated by several large players. In some instances, we see that with respect to the input supplies like potash. On the other end, we see some of the processors in the meat industry.

I'm wondering if you believe this should be regulated in some form. If not, what is being said about it by those who believe it should be regulated?

**Mr. Robert Seguin:** My viewpoint, and the viewpoint of the centre, is that we don't think that such competition should be regulated beyond the existing Competition Bureau capacity. We see that the marketplace can work so that some competitors are doing well and will continue to do well. If they share with their partners, they'll be successful. If they don't, they'll find that their partners are leaving them or they can't sustain their success or their dominant position.

For over 50 years the provinces have looked at regulated marketing in many ways to try to balance their perceptions and the reality that it's a non-equal marketplace. The challenge is that this shifts over time, and the large competitors themselves sometimes fade away, such as Dominion stores. A number of food service chains over the years have faded away. A number of major players on the processing side have faded away. Others step in. How does one build new relationships to have these become successful? That's one of the challenges.

Mr. Valeriote, I don't think a one-food strategy is going to solve it. It's far too complex and far too long. Getting a discussion going is good. But as for trying to make sure that the enterprise, the micro-level, can really work, we think that's where more success can be achieved. More people can use that to make competition more effective.

**The Chair:** Thank you.

Mr. Storseth.

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

Mr. Valeriote is not wrong about one aspect. It is about ideological differences. I believe in freedom of expression; they don't. I believe farmers are capable of making their own choices; they don't. They would like the government to make all their choices for them. Their arguments are that marijuana should be legalized, but French fries should be criminalized. I'm not necessarily understanding where they're going these days.

Mr. McInnes, you talked about reducing health care costs by information dissemination. We talked about diets and diabetes. I thought this was all interesting. What you're talking about is a lot of advertising and making sure the public understands the different types of diets so they can make their own choices, correct?

**Mr. David McInnes:** May I elaborate on that? The link between health and agrifood is highly complex. There's no question. In part, it's about how we produce our food. Sodium and trans fat might be in foods or other things. In part, it's about how eat, which is clearly diet. It's in part about how we inform ourselves or our children and families about our diet. That brings in labelling, education, promotion, advertising, and other things.

Another part of this is how we innovate. Perhaps this is the greatest opportunity for the agrifood sector, because there are other departments in government and agencies and associations that spend a lot of their effort on education and promotion. They do fairly good work. In our view, the question is how to create a catalyst for activity, how to leverage that health file. It's about prevention, and I think there are a lot of good examples around the country.

The Canadian International Grains Institute, CIGI, has been working to create barley as a more nutritious ingredient, very similar to the pulse story. They've engaged plant breeders, an R and D facility in Leduc, Alberta, processors who want to be part of this potential research, and producers. All this creates an opportunity if barley is used in various processed or other foods. Barley, of course, is a good source of fibre. They are bringing these diverse players together and trying to accelerate their work. Then we have greater access to foods in Canada.

There's another benefit. We can increase our export of healthy foods and become known as a producer of high-quality, safe, and healthy foods. That's the bonus. So the health-food link is complex, but our niche here, where the Venn diagram overlaps, lies in how we can create an innovation platform to deliver healthier foods and growth opportunities across the supply chains.

• (1620)

**Mr. Brian Storseth:** That goes well into your conversation on increased trade of Canadian products.

Part of my question to you then would be this. Is part of that ability to increase trade in that niche market the fact that the content we are selling them has to be Canadian content? The old rules used to be 50%, and as long as it was more than 50% of the packaging, you could have "Product of Canada" on it.

Is part of your plan to make sure it would have to be Canadian content to help that advertising?

**Mr. David McInnes:** We didn't specify what is or isn't or should be Canadian content. That's a complex piece, and I understand that from some of your previous testimony and from what we've heard.

From our standpoint, our focus is to understand the attributes of demand within foreign markets, or frankly, in the domestic market. Do consumers in Japan want a more protein-rich pasta or noodle? If they do, how do we align our research capacity and our processors and exporters to deliver it? That's the question, and it's this question that spans the different players, as we say it, across the food system. Therein lies the opportunity.

**Mr. Brian Storseth:** Absolutely.

I'm going to run out of time soon.

Mr. Burt, you talked about the transportation system as part of the overall issue. With the land mass being the size we have in the country we have, rail transportation in particular is very important when you're talking about agricultural products.

What are some of the effective ways we can enhance our rail transportation? Have you looked at ways we can make the process better, whether it's through level of service or different technologies or different types of rail cars?

**Mr. Michael Burt:** I'm not sure I can comment too broadly on that. There is no doubt that when you're talking about the agricultural commodity products, certainly rail is a significant component of the delivered price of the product. I would say, first of all, to ensure there is a competitive environment on rail so that farmers are getting the best break they can for the products they're shipping by rail.

Part of it may be some of the things we're already addressing, such as the Pacific Gateway and ensuring there is adequate capacity there to meet the need. It's obviously just not agricultural products we're moving by rail; we have to ensure there is capacity there for all of the commodities and all of the products we're shipping by rail.

Part of it, too, may be whether there are creative ways of using multi-mode transport so we can take advantage of competition across different modes. Obviously when you talk about vast distances, there are limitations on what you can do by truck and these sorts of things. Those may be potential areas as well.

**Mr. Brian Storseth:** But you would say the Pacific Gateway is an important aspect of this as well.

**Mr. Michael Burt:** I think so. Given the growth in demand in Asian markets, I think there are huge opportunities for us to export to those markets. Among the 25 largest products that we export to China, most of them are commodities of one sort or another. Some of them are forest products, some of them are mineral products, but that includes agricultural products, things like canola oil.

Ensuring we can fully take advantage of that opportunity through capacity is certainly one critical component of the transportation infrastructure.

• (1625)

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

Mr. Rousseau, five minutes.

**Mr. Jean Rousseau (Compton—Stanstead, NDP):** Thanks, Mr. Chair.

My God, Brian stole all my questions, even though we don't agree sometimes.

But I'd like to go on.

[*Translation*]

Mr. Burt, I would like to keep my remarks in the same vein.

Since interest rates are currently low, shouldn't investments be made in the weaker links of the chain, such as the processing sector?

As Mr. Storseth just said, energy costs are through the roof for a number of links in the chain, especially for producers and distributors. Would investments make the chain more effective and help all stakeholders increase their profits?

[*English*]

**Mr. Michael Burt:** Certainly, you're right. The combination of a strong dollar and low interest rates is making it much cheaper for all businesses and industries to take advantage. We have seen significant increases in spending on machinery and equipment across the board, across industries, and food is no exception to that.

The question really is, if you're interested specifically in agrifood, how do we stimulate that? Personally, I'm not big on picking winners. I think broad-based programs such as the ability for accelerated writeoff of capital investments, these sorts of programs, are effective ways of encouraging businesses, including agrifood businesses, to take advantage of the current environment and try to find ways to improve their productivity.

To be honest, for things like food processing, given the strong dollar, which has eroded their competitive position in some markets, for example, this is one of the ways—through increased investment, through improving their productivity, and increasing the value of the products through product differentiation and these sorts of things—whereby businesses can potentially address the challenge they're facing through the strong Canadian dollar.

[Translation]

**Mr. Jean Rousseau:** Mr. McInnes, in terms of the Canadian food strategy, this means that the chain must be turned upside down. It goes from consumer demand to producer supply.

Do consumers and the government want the same thing? Consumers want quality and healthy products. The demand for organic products has increased. Is the organic industry's production sufficient? Although that sector is still marginal, it is growing steadily. Does production meet consumer demand in terms of organics?

I will have another question after this.

[English]

**Mr. David McInnes:** Merci. Thank you for the question.

What is happening is that governments across the country are trying to facilitate how supply chains can work. I'll comment on the federal government for a moment. What we are seeing, federally and provincially, are funds going into the University of Laval for the nutraceutical centre there—among some other facilities across the country—to understand, for example, how clinical trials can be held on various food compounds to understand how they can work. The interest in that is because they want to be able to help the food sector develop new products that are good for you, but they need the public research infrastructure to help do so. We can probably identify across the country where there are some interesting ideas that are occurring.

The question we would ask is, are we optimizing this investment? I think the supply chains need to ask that same question: how can we optimize how they work in order to pull that research out of those good facilities? That's where we think the dialogue needs to change everywhere.

[Translation]

**Mr. Jean Rousseau:** In your analysis, you talked about tourism and about promoting food brands. We, the NDP, feel this could be a good way to support regional economy and help many family companies survive.

Could you tell us more about that?

[English]

**Mr. David McInnes:** Thank you.

I use the tourism example to demonstrate the point that food touches so many different government departments, provincially, federally, and municipally, frankly. The interest in how we support local food is an increasing trend, and we're seeing across the country a real desire, for example, from the universities, from the University of Victoria, to McGill, to Dalhousie University, in sourcing locally. What's fascinating about this is they're getting together with nutritionists, local processors, local producers, municipal councillors, the universities, and food service providers, among many others, to try to figure out how we satisfy that consumer they're interested in: students. It's driving a lot of activity. Is it scalable on an international scale? No. But there is another set of requirements that we need to do to support exporters and even grow market share there.

Just speaking about local food, there's a lot of activity where the different players can come together to create new business opportunities for producers, farmers, and others.

• (1630)

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

Mr. Lemieux.

**Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC):** Thank you, Mr. Chair.

I'm very pleased that this committee is studying the value chain. I think there are two main groups: the farmers at the one end, who are producing the raw materials that feed into the chain, and the consumers at the far end. On what lies in between, although there is commonality, there are also differences, depending on what the consumer is purchasing and where. Just to give an example, the consumer is purchasing processed food in a grocery store or is going to a restaurant.

The chains can have different variations, but I think there are some commonalities. There's the fact that food moves from the producer to a processor, to a distributor, to a wholesaler, to retailers, to the consumers. I think that chain is fairly well understood, but I would like to understand better the different aspects associated with each step.

I'm interested in seeing how we can maximize revenue for the farmer who is producing the produce that enters into the chain, and how we can ensure good value for money for the consumer at the far end, because pricing is added at every point that the product is handled, processed, moved along, stored, and distributed. I think we want to minimize waste as well. Any time there's waste there's a cost hit to somebody. That's where I see our study being very interesting and important.

The report was a joint affair between the George Morris Centre, Mr. Seguin, and CAFPI, and it characterizes the determinants of successful value chains. In your first recommendation—you mentioned five different recommendations—you say that value chains really require the free-will participation of businesses that are involved in the value chain. In other words, it can't really be legislated. To get proper participation there has to be a voluntary aspect by the businesses themselves that are involved in the chain.

The second thing is that the value chains change. Science and innovation are going on. Consumer demands are changing. The chain must be very innovative, and companies must be very adaptable in order to survive, thrive, and prosper in this environment.

I'm wondering if you can comment on those two recommendations, and particularly on the government's role. I'm not convinced it's heavy legislation or regulation, but I think we do have value to add.

Mr. Seguin and Mr. McInnes, what do you see the role of government being, given these first two recommendations in your report?

**Mr. David McInnes:** I wonder if I can defer to Bob to start, given that the paper was authored by the George Morris Centre.

**Mr. Robert Seguin:** Thank you, David.

Thank you for the question, Mr. Lemieux.

Our view is that it's an enterprise prospect, with willing sellers and willing buyers, not coerced or compelled by legislation or regulation but trying to find mutual benefit. There is mutual benefit, but sometimes it's not very easy to find. Sometimes even the regulatory system doesn't encourage it.

Past attitudes and battles in the marketplace have not encouraged people to come together. But if they can they will find they can drive value to the consumer, possibly reduce their costs and waste, find better ways of dealing with it, and be adaptable over time.

This isn't something that's replicated just through regulation or one management study. You have to keep working at it. It varies by commodity. The commodity outlook or the demand outlook for a dairy producer in Quebec and Ontario is very different from that of a potato producer in P.E.I. or New Brunswick. It's different again for a beef producer in Alberta or Saskatchewan. How do you find the right processing balance?

You also deal with a lot of history here. Past differences and views, past legislation, and past attitudes have not always encouraged people to come together. So there has to be a willing capacity. Governments can encourage that, enable that, help management capacities, and help the understanding of what's really happening in the marketplace. But people shouldn't be compelled or coerced into making this happen.

• (1635)

**Mr. Pierre Lemieux:** Mr. McInnes, would you like to add anything to that?

**Mr. David McInnes:** Yes, thank you.

Thank you, Bob.

I think it should be organic; that is, it should naturally evolve where there are business opportunities to be had. Government absolutely plays a key role. They are regulators, they are funders, and they are trade promoters, so in their own right they can have an impact on the marketplace as a whole or on a specific value chain or supply chain.

Where we see an example of that—and I believe this is through the Ontario government—is that they are helping producers,

retailers, chefs, and restaurants find each other in the marketplace. They've set up a website called *Ontariofresh.ca*. Through that they are trying to create new links, essentially new supply chains between growers, producers, and the markets in the populated areas around the green belt. So government can help in that regard, but government sometimes doesn't need to be part of this transaction.

We're familiar with, and have invited to one of our symposia, an entrepreneurial couple who have sourced product from 29 farmers and producers—beef producers and horticultural producers—in the Ontario region to feed healthy meals to thousands of school kids every day in the GTA, the greater Toronto area. They've actually shortened the supply chain, because they have developed a relationship together. They've developed trust. They see value, and now they're moving into the processed foods area, because they're trying to use the full carcass, for example, or they're trying to have a year-round supply of products, so they're getting into sauces and other things. I'm not sure if government was part of their story, but they've found a common desire to create a quality product that improves the quality of meals delivered to thousands of kids every day. We should celebrate that.

The question to them would be, what stands in their way of succeeding? I'm sure they would have a list. But I think we should embrace the fact that there's diversity out there and there are going to be large and small chains.

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

Mr. Allen, you have five minutes.

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

Thank you, folks, for coming.

It's interesting that you talked about feeding school kids. The Scottish national food plan actually talks about feeding kids until grade 6, regardless of income, just simply as a food strategy, period.

Also, I noted that there is a hospital in the GTA—and you wouldn't wish to be in a hospital, but if you've been a patient, you remember how bad the food can be—that is now actually preparing what one would call home-cooked meals. Even though they're actually more expensive to generate at the beginning, what you find is that you don't dump 70% in the garbage at the end, which is what happens with most patient food, because folks really don't like it, and that's understandable. For those of us who have been in a hospital lately, it isn't much fun. It isn't very good, actually. So it's interesting that you talked about that chain and about how institutions may play parts in chains to some degree. It would be interesting to see how that works itself through, because it's only one hospital at the moment in Toronto. We'll see what happens.

David, you talked about something—and Robert did as well—in your report, and that was the Vineland Research and Innovation Centre, which I know infinitely well because I live down there. I hate to admit that I used to take peaches from them when I was kid, but I did. They were pretty good peaches. I don't think they grow those ones that we took any more. I think those were the ones they didn't like.

In any case, are we seeing any models like that across the country? It's somewhat innovative, having gone from a place that almost died, actually—about eight years ago it was almost closed—to what it is today. I wonder if either one of you wanted to comment on that.

Then the second piece was to talk a little bit about what you call sustainability farm plans. Could you both touch on that? And I'll let you use up the rest of your time talking about those two pieces.

Whoever wants to start, please feel free to.

• (1640)

**Mr. David McInnes:** Bob, do you want to?

**Mr. Robert Seguin:** No.

**Mr. David McInnes:** I don't want to put you on the spot.

Mr. Chairman, maybe you better preside on who....

**The Chair:** Mr. McInnes, you have the floor.

**Mr. David McInnes:** Okay, then, Bob, you can think of a good answer.

Quickly, back to the hospital point, this is a really interesting area. It speaks to the idea that we tried to present here, which is whether we should be thinking about the health sector and the agrifood sector, and are there mutual opportunities, such as in the procurement of Canadian food, wherever it may be grown, to help serve hospital meals?

I know in the GTA—I hope the statistic is right. There are 115 million long-term care hospital meals served every year in the province. One has to wonder whether that's an opportunity, and I don't have the answer. What is the percentage of food that's drawn from Ontario or Canada? It's a question that we have to ask. Are we missing opportunities in our own backyard?

With respect to Vineland, I'm most familiar with them. I think there are efforts being undertaken across the country to try to bring people together. I mentioned CIGI. There's the Richardson Centre for Functional Foods in Winnipeg that's trying to reach out and engage the private sector, the supply chains, to create opportunities. There's FOODTECH Canada, if I have that right. They have R and D facilities across the country to bring in growers and entrepreneurs to co-develop foods, and test them, including market and consumer research. There's a whole lot of activity.

The question I would come back to is, are they business-led? Do they have a line of sight on the consumer, and are they leveraging the resources of the public and private research facilities in order to get product to market? And then is the regulatory structure in line with when a product comes out the door?

You need these pieces coming together at once I think in order to create that optimum environment for innovation.

**Mr. Malcolm Allen:** I don't know who wants to touch on the sustainability farm plans and how you see that working itself through, because there's lots of talk about sustainable agriculture. If I could have somebody touch on that...it is part of the report you folks put together called *Canada's Agri-Food Destination*.

**The Chair:** Mr. Seguin was trying to say something.

**Mr. Robert Seguin:** If I can, Mr. Chairman, that's a good question.

I'll say three things. I would like to know at what time any government, any minister of agriculture, ever said local food was not important, because it always has been. What has always been the challenge for many institutions as they looked at the food side is the cost factor. To the point raised by the question, a lot of the product ended up being thrown out, wasted.

It took a change in attitude. What do we really want when we feed institutions, whether schools, hospitals, or long-term care facilities? How do we want to use it, and are we getting the best value? That then turns around and changes what we are trying to feed consumers in these places.

I'll note that the College of Management and Economics here at the University of Guelph has completed, or is just completing, a study on local hospitals and what's driving their institutional behaviour with food. It isn't the lack of a government mandate or even a lack of innovation at the producer/processor level; it's how the institutions historically looked at how they handled food and how to minimize the cost burden. That's how they thought of it. Now they have a change of attitude, which should start changing things.

Finally, I think it's a case of how we help people think differently about where the real value is in the marketplace, versus trying to say that we definitely know where it is. There's far too much complexity in the food system to think that a mandate or a regulatory rule will satisfy both the people consuming the food and the people producing and processing the food. We have to have much more flexibility.

On the sustainable farm plan, our biggest challenge from the centre is that it's a great concept, but both governments and industry have stopped that, so how does this really affect the environment? Can we really measure these impacts to see what really works and what doesn't work? That's a real challenge, in our view, to take this one step further.

• (1645)

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

Mr. Woodworth, for five minutes, and welcome to the committee.

**Mr. Stephen Woodworth (Kitchener Centre, CPC):** Thank you very much.

Thank you to the witnesses for attending here today.

I have a whole host of thoughts. I'm going to try to get through as much as I can in five minutes, and of course the first observation I'll make is that it's very clear what a complex issue this is, so it's a shame that we have to do it in five-minute segments. It's very difficult.

I'll also begin by thanking you, Mr. McInnes, for ending your response to Mr. Valeriote's question by pointing out that we cannot micromanage things.

I will pick up on a theme that Mr. Valeriote started when he said that he observes a bit of ideology about a Conservative's desire to give people the freedom to follow their own destiny. On this side of the room we often observe an ideological desire on the part of the Liberals to micromanage by government, so I think that correctly discerned the issue.

I have been listening carefully, and I haven't heard much said today about the question of the interaction of federal and provincial jurisdictions. Of course, I am new to this committee, so it could be that I have finally stumbled on a committee where the question of federal-provincial jurisdiction doesn't come into play. Maybe everything is running smoothly and there are no obstacles.

When we're talking about food chains, we do have complex activities, and they cut across all provinces. I wondered, since we're doing a kind of overview here, if I could start with Mr. McInnes and ask if it's the case that all federal-provincial issues have been ironed out in relation to food supply chains, or are there some that remain, and what do you think the federal government might do to move those issues or challenges along?

**Mr. David McInnes:** Thank you for the question.

Federal-provincial issues are very much front and centre for the agrifood sector. There are many activities being undertaken right now federally, provincially, and territorially to try to streamline issues and harmonize regulations, including in the slaughtering of beef and federally and provincially licensed facilities, for example. There's an effort under way there to try to do so.

There are issues. There are processes that are under way. I guess the question is for the individual sectors: are they in an optimal spot? I'd have to ask them specifically, but federal-provincial barriers and problems do exist.

**Mr. Stephen Woodworth:** Is there any sort of premier activity going on right now to address that in a comprehensive way, or is it simply sector by sector, as you suggested?

**Mr. David McInnes:** Well, of course, there is the Growing Forward 2 process, which is designed to have a consolidated approach across the country in order to plan, manage and prioritize, and then fund, federally and provincially. That's a robust process that's under way, and it's been under way for some time—previous plans, that is.

The marketplace is always dynamic. There are always new pressures or issues that come up. I guess the question is, notwithstanding such frameworks or agreements, are we nimble enough compared to our competitors to ensure that issues that stand in the way are being dealt with? There's a possible systemic issue that we have to just keep bringing back, and do we have that right process? Government officials are very open to consultation to understand issues on the minds of producers or the sector as a whole, and that's to be congratulated.

I guess the question really is, how can we best move forward, like any other regulatory issue?

**Mr. Stephen Woodworth:** I hope that is a question the committee will study.

Do I have a minute for another question, Mr. Chair?

**The Chair:** You do.

**Mr. Stephen Woodworth:** I'd like to direct this one to Mr. Burt, if I may, because I am familiar with the fact that Conestoga College, which isn't quite in my riding but just next door to me, has initiated some new programs in conjunction with the food processing industry to train skilled workers.

I wonder if you have any bird's-eye information for the committee, Mr. Burt, on behalf of the Conference Board of Canada, about the questions of labour availability in the food chain. Are there weaknesses? Are there spots that the Government of Canada ought to be addressing, or what suggestions might you provide to the committee to take forward to the government about ensuring that we have a sufficiently skilled labour force in the food supply chain?

• (1650)

**Mr. Michael Burt:** I guess I would say there are portions that are highly skilled, but large chunks of it are at lower-skilled levels. It isn't necessarily always a lack of skills. It may be just an outright limited number of people willing to do the work. A good example is the meat-packing industry. Often that industry has trouble recruiting people because it's not necessarily a desirable activity for a lot of people. That's an industry that's been very effective at using international immigration as a source of new workers for the industry.

If you look at the processing segment, for example, manufacturing in general is very male-oriented, with a very limited use of immigrants. There are very many characteristics that are common across most of the manufacturing sector. This is not so true in food. They've been much more effective at incorporating groups that are not traditionally in manufacturing into the food sector.

Probably where you do run into things like labour constraints.... I know Alberta had a pilot program during the peak of the oil boom. In 2007-08, for example, we saw restaurant sales actually falling a little bit, which made no sense at all. One of the reasons for that is just that you couldn't find enough people to work in restaurants. The restaurant industry was actually working with food processors, because restaurants are labour intensive. How can we push some of the product development or the product preparation back to food manufacturers? How can we work with food manufacturers so that we can automate things more, do more of the actual food preparation at the manufacturer level? That way there's a limited amount of preparation work that has to be done at restaurants.

There are areas of labour shortages at different times and in different industries. It depends on what you're talking about, but I'd say, in general, the industry has been effective thus far at looking at traditional sources for its labour supply.

**Mr. Stephen Woodworth:** Thank you.

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

Mr. Atamanenko, five minutes.

**Mr. Alex Atamanenko (British Columbia Southern Interior, NDP):** Thanks to all of you for being here.

Mr. McInnes, I'd just like to follow up on what you were talking about with health care and diet. I'm going to just throw out my questions, and hopefully we'll have enough time so that all of you can respond.

We talked about health care and diet. What I found most certainly when I did my cross-Canada food strategy hearings was that there was a lot of feedback to the fact that the more we support a good diet, the fewer costs there are for our health care system.

Should government have a role in perhaps mandating or legislating local procurement policies, either at the provincial or federal level, such as a certain percentage of food, for example, for state and federal institutions? Should there be some kinds of programs in place to support farmers? I know the U.S. has coupons for seniors to go to farmers' markets. In B.C. we had a pilot project where low-income families got coupons to go to farmers' markets. Should we be encouraging such a policy? It's well known that the more fruit and vegetables folks eat, the better their health is. That's one area.

The other one is the whole area of GMOs. I know that my conservative colleagues will be happy that there is some talk of GM labelling going on in the United States in regard to freedom of choice—in other words, the choice to be able to choose GM foods or not. I'm just wondering what effect it could have here on our supply chain. Something like one million people signed a petition asking the FDA to label genetically engineered foods. There were over 500 partner organizations who helped to galvanize this movement.

In the State of California, I just found out, they are calling to have a referendum in the November ballot. If approved, the California position would have a ripple effect. There would be mandatory labelling of GE foods in California. Obviously, because California has been a leader in many instances, this would have a ripple effect, and probably, then, there would be mandatory labelling throughout the States, and it would probably come here.

If this were to happen, what effect do all of you think that would have on the food chain? Do you have any comments? We know, for example, that Europe and many other countries have this labelling.

I'll just throw those two out, and hopefully you'll have enough time to respond. Maybe Mr. McInnes can start.

• (1655)

**Mr. David McInnes:** Thank you very much.

With respect to mandating local procurement, if I understood that correctly, mandating can often raise challenges. We have to be respectful of our international trade obligations, so we have to understand what any such practice could do.

I think the first step, and perhaps even the better step, is to look a little more in our own backyards. A number of provinces are doing this; the federal government is doing this: bringing together agriculture, education in the provinces, public health, and aboriginal affairs, among other departments, to try to understand how each of those departments has a touch point on food, because many of them do. How do we then get those departments working with community groups, associations, and producers and players in the agrifood supply chain? How can we better serve key populations? Many of

the tools are at hand. It requires working differently together to help do so. I think that should be the first order of business. It comes back to the point that if we think differently about the food system, we may try to resolve many of those key issues.

**Mr. Alex Atamanenko:** Before we move on, I have just one quick comment.

The State of Illinois has done that. They've legislated that by the year 2020, 20% of the food for state institutions be purchased locally. It looks as if it is possible, in spite of trade obligations.

I'll move on.

**Mr. David McInnes:** There's a lot of activity around trying to source locally. Walmart, for example, has made a pledge to double the amount of produce it sources in the United States from local source. Supply chains themselves are responding. All I'm saying is that we need to look at the possible avenues in which to address the identified problem. I think we have to understand the implications of those choices we make.

Perhaps I can turn it over to one of my colleagues, if they'd like to pick up on—

**The Chair:** Please be very brief.

**Mr. Robert Seguin:** For the first part, I don't think mandates will work. The State of Illinois will try, but I suspect they'll find that over time they don't work to this extent, and just because they don't get challenged doesn't make it right. It just may be that it's not worth the effort to challenge it, as has happened in the past.

I think David has pointed out that there are different, better ways to make the marketplace work, and the markets will work, and they will work effectively if we let them, allowing enough information to get out and also understanding what the implications are.

GMO labelling may be one way of trying to address it. It may also be trying to verify whether or not genetically modified...if it changes the food at all. If it doesn't, what's the difference? Then we should try to see if that's something consumers really do need to get at, or only a select number of consumers really want to get at, and whether or not the government should then be involved if it's only a select number.

My strong view is that the markets can work if we allow them to work, and make sure we understand how they work, so they're not being abused by one side or another.

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

Mr. Payne, you have five minutes.

**Mr. LaVar Payne (Medicine Hat, CPC):** Thank you, Chair, and thank you to the witnesses for coming.



We've heard quite a bit today in terms of changing marketplace, business opportunities, consumers, producers, manufacturers, obviously the food sector, and a little about government and research. I want to touch a little on the research side, because we did hear, I think from you, Mr. McInnes, about canola and what they did in terms of research and moving forward in product.

I would like to get your thoughts of who should be leading this particular aspect, in terms of getting research done. Is it the producer? Is it the manufacturer? Is it government? Who? And what kinds of priorities should we be putting on the various types of products?

We'll start with you, Mr. McInnes.

• (1700)

**Mr. David McInnes:** Thank you for the question. This is a big question.

Clearly, academia and the scientists have a major role, of course, in research, and applied research is very important, but I think there's an increasing focus on how we commercialize it—or pure research, rather, that they're interested in. How do we apply the research to commercialize it?

I think canola—I'm glad you raised it—is an excellent point. Canola, of course, is one of Canada's major success stories, a major export success story. But it was born out of two Agriculture Canada scientists, if I'm not mistaken, who developed it and then worked with the University of Manitoba and the National Research Council and then with business and nutritionists to take it to where it is today.

What's the moral of the story? Sometimes an idea can start in pure research, but you need a full slate of players to bring it to success. I saw one statistic—from Cargill, actually—that said to fully commercialize a major project innovation can take ten years and \$50 million to \$100 million. So I think we have to see the complexity behind the question and understand all the more the reason why we need all the players to figure out how best to do it together.

On the other hand, if we really want to be nimble and beat our competitors and attract investment here, then business-led innovation is vital.

**Mr. LaVar Payne:** Mr. Seguin.

**Mr. Robert Seguin:** It's a very good question. The challenge here is that both levels of government have spent a good deal of time in the last century-plus putting in a lot of public infrastructure to support agriculture research and food research, for the very good reason that it benefited society. But the point David just mentioned about the complexity and the variations means that government is going to have to look at how to take that infrastructure and evolve it so that there is more response to the marketplace, and at the same time make it much more innovative than it has been.

It may be that Cargill faces those costs, but a number of other companies may face far less cost. This is an area in which the marketplace should allow innovation to occur where it's best and is adaptable. Let companies learn from either failures in the marketplace or from what really does work.

There has to be a different balance from the one we've had in the past, but it's not going to be an easy one to shift, given our historic dependence on public access to agricultural—particularly primary agricultural—research and our very good success in the history of Canada at that level. But that's changing, given all the variety of products out there and what we could do genetically, or even with new crop varieties at the vegetable or fruit level—you name it.

**Mr. LaVar Payne:** Do you have any comments, Mr. Burt?

**Mr. Michael Burt:** Essentially, you're almost talking about the entrepreneurial spirit. I think you need a champion. Somebody has to see the opportunity, take the lead on it, and drive it. Many of the product developments we've seen over the years have been led by one partner in the value chain.

Definitely somebody has to see the idea and work at commercializing it.

**The Chair:** You have three-quarters of a minute or more.

**Mr. LaVar Payne:** Thank you.

Here is another question for you, Mr. McInnes.

In your report you talked about current policies and practices in the sector, and fear of changing the status quo, and holding Canada back. What can we do to make sure we change that status quo and move Canada forward?

**Mr. David McInnes:** Thank you for the question.

At the very bottom, it is a question of a mindset shift. We have been making incremental change, and investments in science clusters and so forth are positive, but we need to be aiming high; we need to be beating out our competitors in markets. I think having objectives and using metrics will help drive our performance.

We have incredible potential as a country—even more. So what is going to change that dialogue?

**Mr. LaVar Payne:** Thank you.

**The Chair:** Mr. Lobb, you have the last five minutes.

**Mr. Ben Lobb (Huron—Bruce, CPC):** Thanks, Mr. Chair.

My first question is to Mr. McInnes.

We've heard a lot of talk today about whether the government should or shouldn't intervene, and a whole range of ideas about research and everything else. At the end of the day, though, as far as I'm concerned, the supply chain question is about getting a consumer into the grocery store to buy the goods.

If a producer in Ontario, for example, comes up with a great idea or a great product and wants to sell it, using Loblaw's or Sobeys or whoever, there is quite likely a zero percent probability that they will be able to acquire space to put it on a grocery shelf.

Is that correct, or am I incorrect with that statement?

• (1705)

**Mr. David McInnes:** I can't speak to a specific grocery store practice about a specific product, of course.

**Mr. Ben Lobb:** But generally speaking...?

**Mr. David McInnes:** I think we have two things. The first is that we have established supply chains that allow us to have great choice in grocery stores now.

**Mr. Ben Lobb:** Let's just back up for a second.

A producer in my riding, the Ontario Dairy Goat Cooperative, collectively produces 15 million units of dairy goat milk every year. From there, they ship it to Quebec and do a whole number of things.

Literally, they had to buy another company that had existing shelf space in grocery stores to gain access. My point is that we can come up with all the world's best products and programs and everything else, but if the grocery stores don't want to put their products on the shelf, what can we do about it? This happens time and time again; let's just face it.

**Mr. David McInnes:** I think there is a dynamic happening out there in which consumers are really driving "local".

For example, a restaurant association of 500 chefs revealed that sourcing locally was the number one trend this year. Retailers, grocery stores, and restaurants are responding to this in a major way. I know of a number of major grocery chains that are developing local sourcing policies right now to respond to that trend.

Is the market working the way it should? Is it perfect? Perhaps not.

Are they trying to be responsive? I think the indication is that it looks as though it's starting to change.

**Mr. Ben Lobb:** To me, that's a big problem. I look at Loblaws. I'd like to say "good work" to the people at the Ontario corn-fed beef program, but they basically had to give the beef away to Loblaws to convince them to put it on their shelves. They resisted and hesitated. Once they embraced it, all of a sudden they found out that there was a huge demand for the product, because it's a great product, and all of a sudden it's flying off the shelves.

The same argument can be made—I'll use the farm I'm on—for Ontario pork. If you go to your local Zehrs or Loblaws, you'll have a heck of a time trying to figure out where it's from.

The grocery stores, in my opinion, are the biggest to blame for a lack of locally grown initiatives and a local brand awareness. I guess I'll just leave it at that.

Mr. Burt, would the Conference Board of Canada consider supply management a core pillar of producing your own food locally in a supply chain? Would the Conference Board of Canada agree that there is value in supply management?

**Mr. Michael Burt:** We are on record; we have done a couple of studies on supply management, particularly on dairy.

It does provide some benefits in terms of price stability and return on investment for dairy farmers, but it also has a lot of negatives associated with it. Consumers pay more for their supply-managed products than they probably would otherwise. It impedes the innovation process in the industry; it makes it difficult for new young farmers—

**Mr. Ben Lobb:** What about just on supply, though?

**Mr. Michael Burt:** In terms of...?

**Mr. Ben Lobb:** Just on supply, have we ever had a dairy shortage in Canada? Has there ever been a shortage of milk, butter, or cheese?

**Mr. Michael Burt:** Locally you can have shortages, because you have issues around how the quota is managed across provincial barriers, or buying—

**Mr. Ben Lobb:** I've never heard of a shortage of milk in a grocery store.

Have you heard of the instance in Norway in December in which they ran out of butter? Are you familiar with this?

**Mr. Michael Burt:** I don't know about that particular example.

**Mr. Ben Lobb:** Yes. So there is an argument to be made that within our supply-managed sector they have the capacity to increase with demand in order to meet supply.

I guess what I'd say is that there is value to supply management in Canada, to being able to be in that supply chain. The Conference Board's position is slightly reckless, from my perspective, because also—you have to look at this as well—in the U.S.... We hear this all the time: it's cheaper to buy milk in the U.S. That's a farce, because you pay for it twice: \$5 billion a year goes to the U.S. dairy farmers to help subsidize their milk. When the Conference Board of Canada looks at that, it needs to look at all these different things that go into it.

• (1710)

**Mr. Michael Burt:** Dairy is not a level playing field by any means. The gold standard that is usually held up is New Zealand, when you're talking about an unregulated market. But dairy is a market that is regulated in various ways in most developed countries.

You're right, in the sense that the U.S. may not have a supply management system per se, but it definitely has other sorts of agriculture support mechanisms in place.

That said, there are, as I said, benefits associated with it, but there are also costs. One of the costs is that it may impede our ability to get access to other markets because—

**Mr. Ben Lobb:** It may, and we always hear that, but the "may" has never come to the day. I mean, we've never had one trade deal to date that's had a negative impact. That's just a fact of life.

**The Chair:** Were you finished?

**Mr. Ben Lobb:** I'm fine.

**The Chair:** Okay. With that, we do have a bit of committee business that we have to go in camera to deal with.

I would just like to thank all of you, Mr. McInnes, Mr. Burt, and Mr. Seguin, for joining us. All the best. At some point we'll have a report that will come out on this. Thanks again for contributing to it.

*[Proceedings continue in camera]*







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