



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Agriculture and Agri- Food

AGRI • NUMBER 056 • 1st SESSION • 41st PARLIAMENT

EVIDENCE

Tuesday, November 6, 2012

—
Chair

Mr. Merv Tweed

Standing Committee on Agriculture and Agri-Food

Tuesday, November 6, 2012

• (1850)

[English]

The Chair (Mr. Merv Tweed (Brandon—Souris, CPC)): Thank you, and good evening, everyone. Welcome to the Standing Committee on Agriculture and Agri-Food, meeting number 56.

Orders of the day are pursuant to Standing Order 108(2): a study of the subject matter of clauses 351 to 410, dealing with the Canada Grain Act, of Bill C-45, a second act to implement certain provisions of the budget tabled in Parliament on March 29, 2012, and other measures.

Joining us today at the witness table we have, from the Canadian Grain Commission, Elwin Hermanson, chief commissioner, and Gordon Miles, chief operating officer; and from the Department of Agriculture and Agri-Food, Frédéric Seppey, director general, policy development and analysis directorate.

Welcome. I know you people have been before us before. You know the deal. I know there are some time constraints on some of our guests tonight, so I'll ask you to present, and then we'll move right to questions.

Welcome.

Mr. Elwin Hermanson (Chief Commissioner, Canadian Grain Commission): Thank you, Mr. Chair, and good evening to the standing committee.

We thank you for the opportunity to appear before you today. It also brings back some personal memories from some hours that I spent around these tables as well. It's a bit of a walk down memory lane.

Before I begin my statement, I'd like to make a few introductions. I am Elwin Hermanson, the chief commissioner of the Canadian Grain Commission. I have been in that position since 2008. I'm living in Winnipeg now, but I am from Beechy, Saskatchewan, and have a background in agribusiness and public service.

As you mentioned, Mr. Chair, I'm joined by Gordon Miles. He's the chief operating officer of the commission and has long-time experience in the industry. He coordinates and oversees the delivery of programs, services, and activities of our corporate services, industry services, and grain research laboratory divisions.

I'm also joined by Frédéric Seppey. Frédéric is the director general of the policy development and analysis directorate at Agriculture and Agri-Food Canada.

We are at a pivotal time in the grain sector, when public policies and regulatory structures need to keep pace with the rapid changes that we see in the marketplace. Modernization of the grain sector is an important priority for this government, and modernization began on August 1 of this year with the removal of the Canadian Wheat Board single desk monopoly for wheat and barley. Building on this, the government has proposed amendments to the Canada Grain Act as part of the Jobs and Growth Act, introduced in the House of Commons on October 18. These proposed amendments will advance the modernization of the grain sector. I will elaborate on them later in my remarks.

First, to put the amendments into context, I want to tell you briefly about the Canadian Grain Commission and what we do. Back in 1912—and that's exactly 100 years ago—the government passed the Canada Grain Act, creating the Canadian Grain Commission. This commission administers the act. Under the act, our mandate is, in the interests of producers, to work to establish and maintain standards of quality for Canadian grain, regulate grain handling in Canada, and to ensure that grain is a dependable commodity for domestic and export markets.

This mandate involves the delivery of a national grain quality assurance system, with many employees located across the country. The Canadian Grain Commission undertakes four key activities that reflect on our planned direction and the daily delivery of our programs.

These activities are, first of all, quality assurance: ensuring consistent, reliable grain quality assurance to meet the needs of the domestic and international grain markets.

Second is quantity assurance: ensuring consistent and reliable quantity assurance of Canadian grain shipments.

Third is research: researching how grain quality and safety is measured and developing new technologies and methods for assessing end-use quality.

Finally, and very importantly, there is producer protection: supporting producers' rights to ensure that they receive fair treatment within the grain handling system, and this includes producer cars and what we call “subject to grade and dockage”.

The Canada Grain Act has not been amended in any significant manner since 1971. However, we have delivered our mandate in a relevant manner through various policy and regulatory initiatives and by prioritizing our resources to try to meet emerging issues.

The grain sector has undergone fundamental change since the last amendments to the Canada Grain Act. Over the past 20 years we've seen the rise of high throughput, concrete inland elevators, the removal of transportation subsidies, altered transportation patterns and conveyance options, grain company mergers, increasing demands for grain quality and grain safety assurances, evolving end-user needs and preferences, and of course the most recent change was the end of the Canadian Wheat Board single desk monopoly. With all of this change, many of our stakeholders feel that the grain sector needs a revised Canada Grain Act to remain modern, competitive, and profitable. We confirmed this view when we engaged the stakeholders on this subject earlier this year.

I would also like to inform you that we are currently conducting a 30-day consultation on proposed changes to the Canadian Grain Commission's user fees. It began on November 1. The proposed fees would reflect the streamlined services included in these proposed amendments to the Canada Grain Act.

The consultation will help develop an increased cost-recovery structure that will maintain our role in grain quality, quantity, and safety assurance, producer protection, and the integrity of grain transactions. We propose to implement a new fee schedule for August 1, 2013. The consultation invites producers, farm groups, licensees, and industry associations to give their views on the proposed fee schedule, services, service standards, performance measures, and the potential impact on their operations.

Now, Mr. Chair, it's on to the amendments.

The amendments proposed by the government represent an important beginning to addressing stakeholder concerns. The amendments would streamline our operations and services, reduce regulatory burden, reduce sector costs by about \$20 million, and improve producer protection. All of this would be accomplished while continuing to maintain Canada's strong grain quality assurance system. The Canadian Grain Commission would no longer provide inward inspection and weighing services when grain is received at terminal elevators.

Due to the consolidation of the industry, often one company owns both the prairie elevator shipping the grain and the terminal elevator at port receiving that same grain. This consolidation renders mandatory CGC inspection, our inward inspection, and weighing unnecessary. However, if a shipper—and that includes the producer car shippers or a primary grain elevator—deem that inward inspections have value, these inspections will be available from service providers authorized by the Canadian Grain Commission. In the event of a disagreement, these inspections would be subject to review by the Canadian Grain Commission. The proposed amendments would also give recourse to shippers, including producer car shippers in cases where the terminal elevator operator does not have the grain inspected or weighed when the elevator receives it.

Eliminating mandatory inward weighing and inspection by the Canadian Grain Commission requires further amendments to the act. To start, the Grain Appeal Tribunal, which makes final and binding decisions on inspections, would no longer be needed. I would like to assure you, though, that the removal of the Grain Appeal Tribunal does not mean that producers would be unable to question the grade and dockage they receive at delivery to a licensed primary elevator.

Under the act, producers will continue to have the right to a service called "subject to inspector's grade and dockage". Briefly, producers have the right to ask the CGC for a binding decision on grade and dockage in the event of a disagreement.

With the proposed amendments, weigh-overs would be redundant as terminal operators will have entered into commercial agreements with their shippers. Originally, weigh-overs were meant to ensure accurate weighing and reconciliation of stocks stored in terminal and transfer elevators. Without weigh-overs, registration and cancellation—another CGC service—would no longer be needed. All of these operations would be eliminated.

The grain industry asked us to provide and deliver services that respond to its needs and that have value. We are not changing everything we do, only those services that are not needed and that do not offer value. None of the proposed amendments change the Canadian Grain Commission's role in collecting and disseminating data. Service providers and grain companies will gather data and give it to the Canadian Grain Commission for publication on our website, just as we do today.

Keep in mind that these changes do not alter our mandatory role in inspecting offshore export shipments of grain from terminal elevators. The proposed changes do not compromise the quality and reliability of Canadian grain shipments.

Canada's grain grading system remains intact. The Canadian Grain Commission sets and maintains Canada's grain grades standards. We do this based on recommendations made by the western and eastern grain standards committees. Members of these committees represent producers, processors, and exporters. They based their recommendations on research and discussion of any proposed change.

Our grain safety program continues unchanged. The Canadian Grain Commission continues to sample, test, and monitor for grain safety risks, including the presence of toxins, heavy metals, and pesticide residues.

Finally, grain producers have let the government know that they value producer payment protection. The proposed amendments to the Canada Grain Act improve this program. Currently, licensed companies provide security to the Canadian Grain Commission. We hold this security and use it to pay producers in the event a licensed company does not pay for this grain. The proposed changes give us flexibility to move to an insurance-based system with a change to the Canadian grain regulations. With an insurance-based program, elevators and grain dealers would continue to be licensed and producers would continue to receive payment protection from the Canadian Grain Commission. However, licensed companies would reduce their risk through insurance to cover their payment obligations to producers for delivered grain.

• (1855)

Unlike the current program, an insurance-based program can guarantee producers up to 100% of the value of money owed. As well, costs to licensed companies would be reduced, generating savings for the grain sector. This eliminates costs that are ultimately paid by producers.

While these changes help reposition the Canadian Grain Commission for a modern grain industry, there is still more to be done to ensure that the organization can optimally serve the grain sector. We must continue to develop grain research that supports grain quality assurance.

We must continue to develop new ways to measure grain quality, evaluate grain grading factors, and identify new uses for Canadian grain. We must continue monitoring the safety of Canadian grain. Globally, standards for quality and safety are becoming increasingly stringent. We must be ready to provide assurances that our stakeholders can use to successfully access markets.

We are now in a post-single desk world. Producers and grain companies are developing new commercial relationships, and new forms of oversight may be required. We will continue to work with producers and grain companies to keep grain deliveries fair and transparent for all.

Mr. Chairman, I thank you for the opportunity to present to you and to the standing House committee members. The grain sector has entered a time of fundamental change. The proposed amendments to the Canada Grain Act will help the Canadian Grain Commission effectively deliver grain quality and safety assurance, quantity assurance, research, and producer protection now and in the future. We are committed to continuing the development of new and innovative regulations and policies to serve the interests of producers and the entire grain sector.

It's a pleasure to share this information with you, and we look forward to any questions the members may have.

• (1900)

The Chair: Thank you.

Ms. Ashton, welcome.

Ms. Niki Ashton (Churchill, NDP): Thank you very much.

Thank you to our presenters.

I would like to start off by noting that in the communities I represent and in the province I come from there are many people very concerned about these changes. In fact, Churchill, one of the communities I represent, will lose jobs as a result of this so-called streamlining, which is being sold as a great idea. When jobs are lost in any community, and arguably in isolated northern communities, those kinds of jobs rarely come back. Of course, these are jobs that did important work to ensure the quality and consistency of our product at a specific time and point in the export chain, something that not only benefits producers but also the Canadian brand that we've all come to be so proud of.

Winnipeg will also be losing jobs as a result. Unfortunately, no one from the government has been able to say how many, but there is significant concern that there will be a domino effect once the inward inspection employees are gone. Thunder Bay and Vancouver are where the bulk of the jobs will be lost right off the bat.

It's difficult for communities like ours to see this as a good news story because it simply isn't, both on the job loss front and also in the kind of deregulation that will chip away at a proud Canadian brand.

With regard to inward inspection, clearly this is a very important part of the work that the Grain Commission has done, but it's also a very critical point in securing the kind of quality and consistency that Canadian farmers hope to have at all times. We're wondering if, in your deliberations, you took into account the COMPAS report, particularly recommendation number 4 around optional inward inspection and ensuring that there be optional inward inspection going forward—once again with an attempt to ensure the best kind of quality and consistency.

Mr. Elwin Hermanson: Thank you, Ms. Ashton, for your comments and your question.

The question is whether we considered optional inward inspection by the CGC. First of all, we looked at what inward inspection is. Inward inspection takes place when the railcars are being unloaded into the terminal. In today's modern industry, that doesn't reflect what was required when we had several companies shipping to each other's facilities. Often the Wheat Board was involved and had a stake in the grain, and there was a strong demand for inward inspection.

That is now gone. Where there is a need for inward inspection to occur, it's more of a commercial arrangement between the shipper and the terminal elevator. In other words, if they want a deal, if they want an agreement, they can do one.

It would be very difficult for a federal agency such as the Canadian Grain Commission to provide an optional service. It's challenging enough in this business when you have grain volumes going up and down, and movement varying with the weather, to have the right staff available to do inward and outward inspection.

If we were in a position where we could do optional inspection, it would be very difficult for us to determine what worked for us, given our collective agreements and the way we operate as a government agency. Probably, in our opinion, it would not be fair to our employees and it would be difficult to satisfy the industry. That would reflect, in the long run, on the service that producers receive.

While we could give thought to that, the conventional wisdom would be that it wasn't a reasonable or practical option for the Canadian Grain Commission.

• (1905)

Ms. Niki Ashton: I would add to the record that we're concerned that the COMPAS report in 2006, which isn't that far back, noted that this was an important consideration and that inward inspection ought to be there. In places such as Churchill, where you don't have the same kind of company commitment...as you know very well, since the loss of the Wheat Board, it's a very tenuous time for the port of Churchill. With people who have been involved in any kind of inspection, the chances of keeping them there if they don't have the kinds of jobs that the Grain Commission provided...it means they won't be there. With the companies lacking a commitment to Churchill, it poses some real problems going forward for the kind of traffic and incentives that ought to be there for our one and only arctic port—not just for the community of Churchill, but for the province of Manitoba.

The Chair: I'll have to stop you there.

Mr. Payne.

Mr. LaVar Payne (Medicine Hat, CPC): Thank you, Chair, and my thanks to you gentlemen for coming tonight.

It's important that we hear your testimony. This fits right in with what's happened in terms of the freedom to market your grain. Now we are modernizing our industry, going into the 21st century. I think we're looking at very positive things.

Mr. Hermanson, I believe you said you had started stakeholder consultations on November 1. How long will that go on? Are there particular locations? What methods will people have to consult?

Mr. Elwin Hermanson: The current consultation, which commenced on November 1, is not to review the content of this bill, but rather to review our user fees, which will now complement the services that will be provided upon the passage of this bill.

The actual consultation will take place for about a month. We are not planning on extensive consultation. We consulted broadly after the 2010 budget, when it was clear that our funding model would change to a more sustainable model. So the extent of the consultations will be very focused on where the service changes are. We expect to hear from all of our industry stakeholders. We usually do.

There is a process under the User Fees Act that we have to follow. There's a certain time period for responses and a time for any complaints. If there are complaints, there's a period of time when those should be resolved. The proposed fees come, I think, to both Houses of Parliament for your review and approval.

In addition to this consultation, we have done an engagement with the industry on the amendments we're talking about in Bill C-45.

This was a fairly extensive process where we heard from a large number of our stakeholders. You'll never get 100% support, but I would gauge that we certainly had a consensus among the industry that the amendments you're considering have general support from most stakeholders.

Mr. LaVar Payne: Thank you.

You talked a bit about inward inspection. I'm wondering if you could touch on that. What would be the benefit to farmers of the removal of inward inspection?

Mr. Elwin Hermanson: The biggest advantage would be that it takes the cost out of the system. When you are mandated to inspect every tonne of grain unloaded from railcars at all ports in Canada, it's a pretty hefty bill. There are some other costs associated with inward inspection, as I mentioned in my comments, that could also be eliminated. If you add the proposed savings we expect from changing the farmer security program, we're looking at about \$20 million in costs removed from the grain handling system in Canada. That's a significant cost. It's something that needs to happen to make sure that Canada stays competitive and maintains or even expands the market access we currently enjoy.

• (1910)

Mr. LaVar Payne: Those are potentially large savings for our farmers.

You also talked a little bit about quality. Maybe you could just expand a little bit in terms of the quality of the products.

Mr. Elwin Hermanson: All exporters desire to have a quality assurance system. Quite frankly, in my opinion, Canada has probably the best in the world. What that means is that when customers buy Canadian grain, they are confident, when they put the order in with the specs and the grades or whatever they choose to put in the contract, that when they actually receive the grain, it will mill and perform just as they expect it to.

There needs to be consistent quality. We, of course, can't determine what the weather's going to do. The weather will determine how much grain you have of good quality and how much has been degraded by some factor or another. The important thing for the customer is that when they order a specific type of grain, they get exactly what they want. The Americans are focusing on that. The Australians slipped a bit on that, and now they're trying to restore their grain quality assurance system. It's important that Canada maintain that Canada brand so that we can keep market share and have markets for all of the grains we export.

Mr. LaVar Payne: I'm assuming that—

Mr. Elwin Hermanson: That is determined through the work of our grain research lab and by the work we do at outward inspection. Outward inspection is when we inspect the grain that is going onto the vessels. That's to make sure we comply with the regulations different countries have.

A company might want to sell grain to another company in another country and isn't too fussy about it. But perhaps the government of that country is very fussy. If we don't meet the requirements of, say, the EU or Japan or China, or whatever country, we could see exports from Canada to that country cut off until we fix whatever is wrong. We feel quite a responsibility to maintain outward inspection to protect the Canada brand.

The Chair: Thank you, Mr. Payne.

We'll go to Mr. Valeriote.

Mr. Frank Valeriote (Guelph, Lib.): Thank you, gentlemen, for coming.

Mr. Hermanson, first I want to say that a number of us on the committee have visited the Canadian Grain Commission. It was inspiring. For those out east to go out west to see it function was just remarkable. Seeing people from other countries who were there checking out our grain and how to use it was just remarkable.

You talked about the quality of grain and confidence in the quality of grain. That's so important. A number of people have been writing, to each of us, I'm sure, raising issues and concerns they have.

I see from the legislation that basically they're going to transfer inspection to the private sector, to a certain degree. One of the concerns expressed to me is that there isn't going to be a monitoring system put in place to ensure that results are consistent and uniform among the different service providers. In other words, there's no one person overseeing it. Then we have private industry. While they may be accredited or certified in some way, what are you going to do over time to make sure they are providing consistency in the application of whatever expectations there are for the quality of grain?

Mr. Elwin Hermanson: First of all, we are currently monitoring grain, and we will continue to monitor grain. The amendments proposed in this act do not change our role in monitoring grain. What will no longer occur is mandatory inward inspection, which now can be provided if the companies involved ask for it from a third party. That will not diminish our ability to receive samples, starting with the producer right through the grain handling system to the point where vessels are loaded. It does not reduce our responsibility for grain safety. We are not shifting responsibility for grain quality assurance to third parties or to the private sector. We are retaining that responsibility under these amendments.

Mr. Frank Valeriote: Excellent.

You spoke of the User Fees Act. You said that the User Fees Act—and I'm paraphrasing—allows a charge or a levy for a product or a service that is provided only by a regulatory authority and that results in a direct benefit or advantage to the person paying the fee. Some of the expressed concerns are that there are certain derivatives, such as a grain research laboratory, maintaining grain quality assurance, maintaining food safety, policy development, and traceability—these are all things in the public interest that do not derive direct benefits to the user. You said you're in a 30-day period of determining what these user fees will be.

Can you tell us what you intend to include for which charges will accrue and what will be excluded? Will policy development, food safety, and traceability, for example, be excluded because they don't derive a direct benefit to the end user?

Can you give us some kind of indication of how the increased fees may compare with those that are charged in other countries like Australia or the United States? Have you even gotten that far to estimate what they might be?

• (1915)

Mr. Elwin Hermanson: Thank you, Mr. Valeriote. Excellent questions.

Yes, in the previous consultation we did on user fees, the issue of public good versus private benefit was hotly debated by our stakeholders. I think most recognize that there is an element of public good. I'm getting a little bit off the topic here because now I'm getting into the user fees rather than the amendments, but they are supposed to marry up here, so I think that is relevant.

There will be a component of public good in our funding. We anticipate it will be around current levels of just over \$5 million a year. We're waiting to hear what our stakeholders say this go-around with our change in services.

But you're right, there's an element of grain safety. There is an element of what we do that is recognized as being for the benefit of all Canadians. However, the larger portion of what we do benefits industry players; it benefits the companies. We do a lot of work for the companies. It benefits producers. We do a significant amount of work for producers, and under the User Fees Act, where we do that kind of work, the cost should go to the benefactor, which is an individual or a company player in the industry.

Up to this point, increasingly the taxpayers of Canada have had to subsidize those services because our fees were frozen in the mid-nineties at 1991 levels. We all know what has happened to a cup of coffee over the last 20 or so years; it costs a lot more, and of course our services cost more. The taxpayer was having to subsidize us almost to the tune of 50% on an annual basis, even though the majority of what we did was for private benefit, not public benefit.

So I think we need to rebalance, and that's a debate, and we're looking forward to seeing how that transpires through this consultation process.

The Chair: Thank you.

Mr. Richards.

Mr. Blake Richards (Wild Rose, CPC): Thank you. I appreciate you being here. Your expertise is much appreciated.

The way I see this—and I think the way many farmers, particularly in western Canada, would see this—is as the next step in the modernization of our grain sector. To highlight that, I'd like to read a couple of quotes from one of my constituents, who also happens to be the president, or he may be now the past president, of the Western Barley Growers Association, Doug Robertson. I'm sure he'll be happy that I was able to quote him here at committee. His quotes really say it all, I think. He said:

Along with a voluntary CWB, it is essential that we also update the Grain Commission and the Grains Act so that its regulations also fit a more open market for all our grains and oilseeds.

Then he also said:

Since farmers are now in control of their marketing, they don't want to have to be paying for services they do not need or want, and one of those has been inward weighing and inspection charges.

I think that really says it all. I'd like to get your take on it. Could you expand on this a little bit for me? I think this really is the logical step—and that's certainly what we've heard from the minister and from others—in the modernization of our grain handling system in western Canada.

I wonder if you could first of all explain to us how the removal of the monopoly on August 1 of this year modernizes the grain sector. And could you also expand on how you see that this might be the next step in that modernization as well?

Mr. Elwin Hermanson: When I got to the commission, I did a little bit of research to find out what issues the commission had been dealing with prior to my arrival, and I found the issue of inward inspection preceded my appearance at the commission by many years. The issue of whether in fact it was a necessary service had been debated for a long time. One of the other members mentioned the COMPAS report, and there are actually documents that precede that one debating the issue.

One of the reasons for the slowness in coming to grips with change, I guess, was the Canadian Wheat Board. The Wheat Board actually took possession of grain when a farmer sold it through a company's facilities, and it was important for them to know what grain was going into these terminals; that was for wheat and barley. It wasn't the case with canola and non-board grains, but with wheat and barley the board wanted to know what kind of grain was going into the terminals. I suppose they could have paid a third party to do that, but because there were substantial amounts and they were sort of quasi-government as well, I guess it made more sense for the Canadian Grain Commission to do that. Now that the board has lost the single desk and is competing for wheat and barley with other companies, the last brick in the wall that would be an argument for maintaining mandatory inward inspection by a government agency has pretty much been removed.

So, yes, it has made a difference.

● (1920)

Mr. Blake Richards: Really this requirement has sort of added an extra burden, through the government, of course, onto the taxpayer. Would you...?

Mr. Elwin Hermanson: Every car that we inspected before our user fees changed was approximately \$25 or \$26, and there are thousands and thousands of railcars of grain unloaded every year. Remember that this cost was far below our actual costs, so in fact every time we charged that \$25 we were undercharging for the service, for the cost of what we were providing. That benefited the companies at the time, but they were receiving better value than they should have. Even at that, an unnecessary cost was being imposed on them. So it just seems that eliminating mandatory inward inspection is a win-win, both for the taxpayers and for the industry.

Mr. Blake Richards: Right. So really, in a sense, it was eliminating duplication.

I'm wondering if you think it would be better then to focus on your role in what we call outward inspection. I think that is when the

grain is actually at port and it ships from there. For the committee's benefit, could you just tell us a little bit more about outward inspection and how that works?

Mr. Elwin Hermanson: I'm happy to do that.

We have very professional grain inspectors located at all the ports where vessels are loaded with grain for export from Canada. The major west coast terminals are Vancouver and Prince Rupert. We have a large component of staff at Thunder Bay, where they inspect grain on salties and on lakers. We have inspectors at the ports in the St. Lawrence system, right through as far east as Port-Cartier. Then we have seasonal staff in Churchill. They will continue to be located at those ports if these amendments are passed, and they will continue to do the outward inspection.

As I mentioned in answer to an earlier question, that's to maintain the Canada brand, to maintain our reputation as being a quality provider. The Americans do the same thing. The Australians do the same thing. If you don't provide that assurance of quality, you lose sales. That's why it's important that we focus on where the need is and do not focus on where.... If in fact inspection is needed, there should be a commercial arrangement between the shipper and the terminal.

The Chair: Thank you.

Ms. Brosseau.

Ms. Ruth Ellen Brosseau (Berthier—Maskinongé, NDP): I'd like to thank you for being with us.

I would like to thank my colleague who started off the questioning.

You look at the part of the section that changes the Canada Grain Act, it says in French, "*emploi et croissance*". In English, it's "jobs and growth", but then we hear there are going to be job losses. We're hearing about a lot of positives. Are there any negatives? It all seems to be fine and dandy, but do you have any worries about these changes, or are you just all gung ho?

Mr. Elwin Hermanson: It's an excellent question.

Obviously, we have concerns about whether this act will work, and that's why we did an extensive engagement with the industry before it came before Parliament. You are correct; the footprints of the CGC will be smaller after this act comes into force. That's a reality we have to face. That's not pleasant, because we have excellent employees; we have very professional people working for us, and their number will be reduced.

Nevertheless, if we look at the threat to our organization if we work in areas that are irrelevant, that casts a bad light on the entire agency. That would start to put into question whether we should be doing the things that I really believe we should be doing. We have excellent staff who we want to maintain to provide outward inspection. We have excellent staff who are doing research. We have scientists, chemists, and others in our labs who are world-class and are renowned around the world. We want to do whatever we can to maintain those necessary services. If we bury our head in the sand and refuse to change with the industry and stay relevant, then we start to put into question whether we've got a handle on things. I believe the commission does have a handle on things. We know what has to stay and what needs to change. Every time you change, most of it is positive, but you are correct, some things won't be as pleasant as we'd like. That's the world we live in.

• (1925)

Ms. Ruth Ellen Brosseau: The minister has said that these changes will save up to \$20 million. Would any of these savings be downloaded on to farmers?

Mr. Elwin Hermanson: No. Farmers will save the \$20 million. The only way there would be increased costs to the industry would be if they decided to do a lot of inward inspection. We don't anticipate there will be a lot. If companies start using other facilities and they want to pay the fee...they're telling us they don't want to do a lot of inward inspection on an optional basis, but if they do, that cost would come back into the system.

Of course, farmers and others in the industry are taxpayers. Taxpayers were footing a bill lately of over \$30 million a year in subsidies to the Canadian Grain Commission. As I mentioned, a lot of that was for private benefit. Taxpayers are also saving some money, as well as the direct \$20 million that's being reduced in cost to the system.

Ms. Niki Ashton: Mr. Hermanson, do you know who is losing their jobs? What kinds of demographics are we talking about here? Can you give us some information on what kind of employee that is, besides a job title? Who are the people who are going to lose their jobs first?

Mr. Elwin Hermanson: We're analyzing that. We have to comply with the workforce adjustment directive that the government has put in place to provide benefits and assistance to any employees. It gives them options as to how they move forward. As soon as we can make that information available to you, we will. We also have to respect that we should probably be talking to our employees as soon as we can and not talking around them. For that reason, until we know for sure, it's probably not wise to speculate. These are people who have lives and concerns, and we're trying to do the very best for all our employees.

Ms. Niki Ashton: In a community like Churchill, as you understand—you've been there—there are very few options, and certainly none in the public sector. The public sector is gone. From our information, most of the employees are actually young people, and many are from equity-seeking groups, new hires, and people who, in the current job market, will probably have a great deal of difficulty finding another job, unfortunately.

We'd be keen to hear information about the people who will gone from the CGC and which Canadians they are.

Mr. Elwin Hermanson: We have a good contingency of seasonal workers in Churchill. Because we will still be doing outward inspection, there may be opportunities for many of them to continue to work with the commission.

The Chair: Mr. Hoback, go ahead.

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

Thank you, gentlemen, for being here this evening.

I appreciate you tolerating the votes and burning the late-night oil with us. Mind you, Elwin, I know you're a farmer, so you're used to working late at night—or you used to be a farmer—so I'm sure this is nothing new for you.

One of the things I'd like to talk to you about, sir, is to get an idea of the consultation process you used to come about with these amendments, and how you went about consulting with the stakeholders to make sure we got this right.

Mr. Elwin Hermanson: Thank you, Mr. Hoback.

We sent out a letter of engagement to producer organizations, industry stakeholders, the grain companies, and our licensees. It was very broad. We got an excellent response. I should have had those numbers at my fingertips. Something in the neighbourhood of 70 organizations strikes me, but I could be out a little. Some met with us. Some wrote pretty extensive briefs to us. We analyzed all of them very carefully, and then we consolidated that into a report to see if there were any themes and a common direction that was supported by most of the industry. We found that was the case.

We also did a poll—maybe polls are bad words, I don't know, but government agencies do them from time to time—and we polled producers in particular. We found that producers respected the commission and they said that we do provide value. They wanted us to make sure we were providing the right services. Things like security were highly valued by producers. The fact that Canada has a good grading system was valued.

• (1930)

Mr. Randy Hoback: I'm going to cut you off, sir. I only get five minutes. There are other things I want to get to here.

Mr. Elwin Hermanson: On a limited budget, we consulted by this letter of engagement and got a good response.

Mr. Randy Hoback: So you are comfortable with the stakeholders' opinion on this.

You talked about increased protection for producers. In my view, when I look at that, it's the bonding system we are using today versus something new in the future. Can you talk a little more, expand on what your plans are in that area? Maybe give us a little history on why we need to make some changes there.

Mr. Elwin Hermanson: Certainly, Mr. Hoback.

The current system is what I call a silo system. Every licensee has to make security available in the name of the Canadian Grain Commission. It's not money we have on deposit, but money that is set aside through bonds or other financial instruments for the Canadian Grain Commission should they be unable to pay producers. They have to cover off their exposure to producers at any particular time. The entire producer liability in July could be a substantial amount.

They have to do all the paperwork and all the accounting to provide us with monthly liability statements. There's the cost of providing these bonds. I shouldn't say bonds, because there are a lot of things besides bonds. If you add together all the value of these instruments, over \$600 million is tied up at the present time. They haven't paid us \$600 million, but it's tied up. It's capital they can't use to grow their business. There's no basket approach. There's no insurance component to this at all. It's costly, and it's an administrative nightmare for them. It's a lot of work for us. We have to go through all those statements.

Mr. Randy Hoback: It's also fair to say that it's a little misleading to farmers because their situations...as we have seen in the past, the bond has not been sufficient to cover the needs.

Mr. Elwin Hermanson: I'm going to get to that. It's very costly. The administrative burden on the licensee is huge. We have to do audits, and we have to go through tons of paper. You are absolutely correct. We're supposed to have 100%. Normally we do. We checked, and in the last 12 failures over about the last eight years, we had full payment from two-thirds of them. There have been a couple of others where it was almost 100%. There have been a couple of cases where the producers got only a few cents—30¢, 40¢, or 50¢ on the dollar—because licensees weren't reporting correctly or they made some deal that really went south on them, and their exposure was far higher than it had normally been. Producers were left holding the bag and weren't fully paid for that. We suggest that if you went to an insurance system where your coverage was based on risk rather than the producers' actual liability, you could then take the basket approach. We know not all of our licensees are all going to go broke at the same time. That's not the way things work in the real world. There are economies as far as cost is concerned, and also a lot less administrative burden on everybody.

Mr. Randy Hoback: So we can bank—

The Chair: Thank you. I have to stop you there.

Mr. Allen.

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

Maybe I can follow up with Mr. Hermanson about what you just said about this idea of—we had a dozen places that had some issues, and you had some players who exceeded their bond capabilities, whatever they happened to be, whether it was a bond or whatever securities they have. Can you explain to me how buying an insurance policy would mitigate that risk if somebody decides they want to go beyond their ability to pay or the ability of the insurance company and the policy they took out? How do you stop that with an insurance policy versus a bonding, or do we not?

Mr. Elwin Hermanson: The way an insurance program would work is that the chance of the licensee not paying would be evaluated. If it was felt that this was a properly operated business and

it was viable, they would get insurance and the full benefits to producers would be covered if there was a failure—

Mr. Malcolm Allen: Let me stop you there, sir, because that's not actually what I asked.

You referred to the fact that there were some players out there who said, "I've got \$100 in here as security against your need for \$100." We'll use small numbers that make sense for me. But they play to \$110, even though they own \$110 there. So I buy an insurance policy for \$100, but I play to \$110.

Can you tell me how that \$100 insurance policy will backstop the \$110 of risk I actually participated in? Your explanation to Mr. Hoback was about somebody who played beyond his security. Well, you can play beyond the insurance policy. The insurance policy is security as well. What you're suggesting is that it's a security instrument. So how does the insurance policy stop someone from playing beyond their security? I don't follow that one. You're suggesting it can, unless there is a different answer now.

•(1935)

Mr. Elwin Hermanson: I'm suggesting that the insurance would be set up in such a way that the total liability would be based on the risk of failure, and if there is a failure, then 100% of that risk is covered.

Mr. Malcolm Allen: I'd like to see what the policy fee for that one is going to be, especially for the risky players, because that one is going to be a premium plus a premium plus.

In any case, the inward inspection piece, which is optional...your amendments are such that you're saying that CGC isn't going to look at that optional piece. I guess the question of why we wouldn't go down there has been asked in a couple of different ways. You're suggesting there is some sense of uncertainty to it—it's perhaps expensive, or it's a few other things.

I noticed in your overview that you talk about the risks involved in inspecting grain, and grading grain, in particular, is a skill requiring expertise and training that a court would not have. You talked about if you went to court, which is a different piece. I'm looking at the expertise you say your inspectors need, which I absolutely agree with, by the way. It's an absolutely true statement.

Where will the third-party private inspector get this expertise? You have suggested you can't keep it because of the uncertainties of the market that will ask for this inward inspection, because it's now going to be optional. So where will the private sector get those folks from if you can't get them? You're the experts, and I say that with all sincerity, sir. You're regarded around the world as being at the top of the class. Where are we going to find these folks to do this when folks ask for it? I'm sure someone is going to ask.

You're right that it won't happen as often as a mandatory piece, but certainly it's going to be asked for. Where will we find them?

Mr. Elwin Hermanson: There are actually a lot of inspectors, and they're competent inspectors in all components of the private sector right now, as well as companies that operate solely to perform inspections. So all of the major grain companies have their own inspectors. They cooperate and they consult with us, and they will be able to continue to do that if this bill is passed.

Right now, if there is an inward inspection done by the CGC, we're involved through the process right until you reach the grain appeal tribunal. The majority of the members on the grain appeal tribunal are inspectors from the private sector. They are company inspectors.

What this act would propose is changing that order around so that it would be the companies or a private sector business—

Mr. Malcolm Allen: The boss is telling me I have 10 seconds, so I have to sort of nip it there. Sorry, sir.

The other piece becomes that they're already employed doing something. That being the case, how do they become the optional piece if they're already working doing something else? How do they get freed up to do that?

I'm not sure you can actually tell me that. It's going to be up to the individual companies as to whether they free them up or not, so I'm not sure you can tell me there is an answer to that, to be perfectly frank.

The other piece is, are you aware that CFIA actually has an optional inspection system for folks if they want it? You could perhaps have modelled yours after theirs. You could have had an optional model to follow and not have to recreate a wheel. You actually would have had an optional system for inward inspection when it is requested through your agency.

Are you aware that there are other agencies within the federal government that have a model now?

Mr. Elwin Hermanson: What I'm saying, Mr. Allen, is that those inspectors are already there within the companies. There is not going to be a change because they are already inspecting on behalf of the company. The companies have to have those inspectors.

I was also saying that at the current time there are companies that are already doing inward inspections and other inspections. That's their business, and if there is a problem, they'll talk to us to get something resolved.

By eliminating mandatory inward inspections, we're proposing that if there is a dispute, if the inward inspection is not satisfactory to one of the parties, there is still an appeal mechanism. Now the appeal mechanism goes to the Canadian Grain Commission, which I think is the right place to put it. It gives us the last word rather than the first word if there is a dispute over grain. So it's actually our inspectors, if there is a dispute, who make the final determination of what the grain dockage is on an inward inspection.

● (1940)

The Chair: Thank you.

Mr. Lemieux.

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

A major part of what's being proposed is the elimination of the inward inspection, so I just want to make sure that we all understand exactly what's going on.

We have a farmer who sells his grain to a company, let's just say Viterra, which moves the grain throughout the system, perhaps from elevator to elevator and eventually to a port. Under the existing act, the Canadian Grain Commission would have to do inward inspections every time Viterra moved it. Would that be correct?

Mr. Elwin Hermanson: Not quite. Right now, if a farmer delivers grain to a Viterra inland facility, an elevator on the prairies, normally they would agree on the grade, because there's not a CGC inspector on location at an inward elevator. But if there's a disagreement and the farmer says he's not happy with the grade he's been given, the farmer has the right under the act, which right continues under the amended act, to call for what we call "subject to grade and dockage". A representative sample from that grain is collected and sent to the Canadian Grain Commission. We grade it, and our decision is final and binding. That is a protection that the producers currently have, and there is no change proposed there whatsoever.

The inward inspection occurs when railcars are unloaded at terminals—Thunder Bay, Vancouver, Montreal, Baie-Comeau, or wherever. That's what I call a commercial arrangement. It's between a couple of companies. That's what it is, and that's what we would propose to eliminate, which is what this act would do.

The final inspection is when the vessels are being loaded, and we will still have CGC inspectors on site inspecting the grain as it's loaded onto the vessel. I don't have the time to go into.... We go through a pretty extensive process to make sure that the specifications in the contract, or the grades in the contract, are met. We're pretty flexible. Whatever is in there is met, and then we sign a certificate final for the vessel that states the contract has been met. This way, when the vessel leaves, the shipper feels pretty confident that the customer is going to be happy.

Mr. Pierre Lemieux: One of the advantages of eliminating the inward inspections is a savings to farmers.

Mr. Elwin Hermanson: Absolutely.

Mr. Pierre Lemieux: It's a simple streamlining of effort on behalf of the Canadian Grain Commission, and therefore there is less cost being borne by farmers.

Mr. Elwin Hermanson: It's not required as a mandatory service, but it costs money. So if we can eliminate it, there will be a savings.

Mr. Pierre Lemieux: Canada has high-protein, high-quality grain, so let's talk about outward inspection. Can you tell the committee about the role the CGC plays in outward inspection, and what impact that has on our ability to sell our grain internationally?

Mr. Elwin Hermanson: It's pretty extensive. We have something at a terminal called a crosscut sampler. It goes across the belt that carries the grain to the vessel. It takes a continuous sample of grain from that belt and sends it directly to a CGC office where CGC inspectors collect that sample. After 2,000 tonnes are loaded on the vessel, we do a cut-off on that one and start the next one. We set that sample aside and inspect it to make sure it meets the specifications of the contract. If there's a problem, we'll notify the terminal right away so they can correct the problem. If the specs of the contract are met, that's when we sign the certificate final, which gives confidence that the grain quality assurance is there.

You said "high quality". Yes, we are known for high quality, but it's not necessarily high quality. It's the quality that the buyer wanted. If the buyer wanted number three, and that met their needs, it would be three or better. It would not be below the specs of the contract.

Mr. Pierre Lemieux: We want consistency. You're guaranteeing the specs and consistency.

Mr. Elwin Hermanson: Absolutely, consistency is an important word.

Mr. Pierre Lemieux: Right, and there are no changes to outward inspection. This is a critical role. This is still being offered. It's still being mandated.

Mr. Elwin Hermanson: Absolutely, there is no change.

Mr. Pierre Lemieux: All right, good.

Thank you, Chair.

The Chair: Thank you.

With that, I'll thank our guests for being here tonight.

We have another set of witnesses to come forward.

We appreciate your time. I know that you have to get on the road. We thank you very much.

We're going to take a two- to three-minute recess to allow our guests to leave and our new guests to join the table, and then we'll get back to it.

•(1940) _____ (Pause) _____

•(1945)

The Chair: Welcome back to the second part of tonight's meeting.

Joining us at the table now, from the Canadian Special Crops Association, Pulse Canada, we have Mr. Gordon Bacon, chief executive officer; from the Canadian Federation of Agriculture, we have Humphrey Banack, second vice-president; and from the Canadian Canola Growers Association, we have Richard White, general manager.

You know the routine. I would ask you to keep your comments reasonably brief and we'll get to questions.

Who is going to start? Gordon.

•(1950)

Mr. Gordon Bacon (Chief Executive Officer, Canadian Special Crops Association (Pulse Canada)): Thank you for the opportunity

to appear before the standing committee to express the views of the Canadian Special Crops Association.

The CSCA has 110 members, ranging in size from large multinational companies to single-plant processors of the four pulse crops, as well as sunflower, buckwheat, canary seed, and mustard. The CSCA brings the voice of the trade and the processing industry to Pulse Canada.

I am here representing the views of the CSCA, but we, at CSCA, are a very strong and important part of the Pulse Canada organization. All of you as elected members will be receiving a letter from Pulse Canada outlining our strategic plan and inviting you to view it so that you can get an idea of the partnerships that we see in the pulse industry, in the special crops industry, where government, the trade, and farmers can work together to make this a stronger industry.

My task here today is to share the views of the CSCA on how we build a stronger industry, and more specifically the framework we can use to look at how changes proposed by this act will impact the operations of the Canadian Grain Commission and thus impact Canadian processors and Canadian farmers.

Trade members have always stressed the importance of being competitive. The pulse and special crop trade wants to focus on optimizing costs and diversifying our revenue streams. Achieving these outcomes will ensure high returns for growers, competition in the Canadian marketplace, and will give farmers in Canada a reason to continue to grow pulses and special crops.

The CSCA has a diverse membership base. The majority of CSCA members are small and medium-sized enterprises operating across Canada. All members are responsible for creating jobs in processing and handling in rural areas, adding value to commodities, and they are responsible for ensuring that Canadians can meet the needs of our customers who are residing in more than 150 countries.

Canadian farmers and processors can be competitive when we focus on keeping costs low and strive to ensure that we compete on a level playing field at home and abroad. When we have fair and level competition, we grow, create jobs, diversify the market base, and help create a stronger, more stable agricultural sector.

Let's use this framework as the criteria against which we can compare the proposed changes to the operation of the Canadian Grain Commission. The move away from the requirement for bonding of grain companies as a condition of being licensed by the Canadian Grain Commission is seen as a positive step. The trade has been assured that this move will lower costs and free up capital to be put to use growing the businesses. However, we aren't so certain it also ensures there will be a level playing field between Canadian companies. There are no answers as to whether there will be differences in the insurance costs among companies, and, if there are differences, how significant these differences might be. Without these facts, questions remain as to whether we have optimized the change in policy. While costs are expected to be lower, we need to understand whether the changes will also shift the competitiveness among companies.

This is particularly important, in our view, when it is a government regulation that may be unlevelling the playing field.

Members of the CSCA recognize that farmers want payment security. Outside of trade in agricultural products that occurs in facilities licensed by the Canadian Grain Commission, government-mandated security programs do not exist within the rest of agriculture.

We all recognize that there are approaches to payments today that didn't exist 10 years ago, when cheques had to be issued, sometimes mailed, and might even take a few weeks to clear through financial houses. Today, with options that include immediate electronic transfer of funds, there are a wide range of settlement options against which the value and costs of insurance-based security programs need to be considered. The question that should be considered is whether it is necessary or in fact desirable to implement the provision of the act that would continue to require licensees to have a security provision prescribed to them by the CGC. A provision that would create an unlevel playing field between companies or disadvantage small and medium-sized enterprises would not be seen as a positive move for government to impose on the trade.

The move to full cost recovery of the Grain Commission is also an important issue. All fees come off the bottom line of farmers. The CSCA recognizes that fee changes are needed, especially when the fees have been frozen for so long. But CSCA members also suggest that the costs of the Canadian Grain Commission must be driven down further through a more comprehensive streamlining of operations than the current amendments in this bill propose.

● (1955)

This bill does not address all of the recommendations that have been made in the past, and until things like modernization of the governance structure and elimination of other costs from the Grain Commission structure are done, a mandate to recover all costs will result in CGC operational costs that must be funded or recovered through higher fees charged to grain companies, which are then passed on to farmers. Therefore, the CSCA encourages this committee to look at what additional changes need to be made to the CGC to ensure that it is as cost effective as possible. The CSCA would also encourage all the political parties around this table to agree on the approach that will eliminate these costs, and in the process help the trade and farmers through cost reductions before the cost recovery is implemented on August 1.

The CGC currently plays some important roles that Elwin spoke about in his remarks, including cargo monitoring for pesticide residues, heavy metals, and mycotoxins. If the CGC's role will change with a reduction in funding from government of, I understand, over \$40 million, the CSCA is asking for a clear indication of what changes to fees or services will be made. He did talk about the consultation that is under way in the month of November.

The timelines are very tight for these changes to be made, and clarity is needed on what the existing charges are and what the charges will be under a cost-recovery system. The CSCA is asking that the committee ensure that the answers on the changes to both mandatory fees and optional services are made clear, noting both the existing and proposed new fees in a side-by-side comparison.

The complexity of trade is increasing as food security, food safety, and quality assurance continue to be important while the ability to

test becomes more sophisticated. The role of the Canadian Grain Commission in playing a role in Canada's quality reputation needs to be recognized. The value that all Canadians receive from high standards of quality assurance also needs to be recognized.

In closing, I want to thank the committee for the opportunity to present the views of the Canadian Special Crops Association.

The Chair: Thank you.

Mr. Banack.

Mr. Humphrey Banack (Second Vice-President, Canadian Federation of Agriculture): It's a pleasure to be here this evening to present to the committee.

I'm Humphrey Banack. I'm the vice-president of the Canadian Federation of Agriculture. We farm 4,500 acres of grains and oilseeds in central Alberta. We market between 4,000 and 5,000 tonnes of grain per year through CGC-licensed facilities and others, so these changes are very important to our operation. The costs of those fees are also very important to us. They're a huge part of what we need, and producer security is a part of that.

Thank you for the opportunity this evening to appear before the standing committee to discuss the changes to the Canada Grain Act.

Founded in 1935, the Canadian Federation of Agriculture is Canada's largest farm organization. Our members include provincial general farm organizations as well as national and interprovincial commodity organizations from every province. We represent over 200,000 farmers and farm families in Canada.

As you are aware, the Canada Grain Act and the Canadian Grain Commission are the cornerstone of the grain quality control system in our country. For over 100 years, it has served as the national entity overseeing the grain industry and protecting producers' interests within the system. This regulatory function has provided Canadian producers the framework to continually produce and supply high-quality, safe food to Canadians and our international customers. This should remain the focus of the changes today, from now until August 1, 2013, as the CGC evolves into its new role, and any future changes to governance and amendments to the act.

The CFA generally supports the changes to the Canada Grain Act and the role of the CGC, but continues to have reservations about the changes to the producer payment security program. In regard to repealing CGC inward inspection and weighing, the changes will better reflect the structure of the industry and modernize the current system. The option to appoint a third-party inspector is important to ensure an open and transparent system and to protect the shipper. The CFA supports the use of third-party service providers that are certified and accredited by the CGC. A monitoring system should be put in place to ensure results are consistent and uniform among the different service providers available. We also appreciate that the CGC will remain involved in the collection of inward inspection and weighing data, as access to this information is important to a well-functioning industry.

The elimination of the Grain Appeal Tribunal and its replacement with a one-time binding ruling by the chief inspector for Canada streamlines the appeal process and still provides the necessary course for compliance to appeal in an inward inspection decision at terminal position. In a case where a producer and operator don't agree, producers are still able to request a grading and dockage decision from the chief grain inspector. Paragraph 61(b) of the Canada Grain Act and section 36 of the Canada grain regulations will continue to provide legislative authority and to outline the procedure. There are no changes proposed to this important producer protection.

The current producer payment security program provides an insurance that allows farmers to utilize the full range of grain marketing tools that are available to them. The program ensures that farmers are financially protected and paid for the grain they deliver. We have confidence in the system, and the CGC regularly makes available a list of licensed companies and their relevant details. This assurance must continue.

The proposed amendments to subsection 45.1(1) of the Canada Grain Act replaces the current bonding system with an insurance-based third-party program. While the insurance-based program has merit, additional details are required prior to CFA's fully endorsing the change and the new program. Details on the actual cost to run the program, cost savings to producers, percentage of grain covered, premium calculations, the structure of the insurance, or how the program will be operating have not been forthcoming. The concept and details of the program are first required prior to determining whether the industry will benefit under the new program.

To be successful, the CFA urges the CGC to work with provincial farm groups to ensure that the program details and implementation needs meet the needs of producers. These details will determine whether the insurance program can provide the cost savings to the industry and be a viable replacement to the current program.

We would like to stress that security coverage must be a mandatory prerequisite for a licence, no matter the size or structure of the licensee. No company should be exempted by regulation or by order of the commission. The CGC should continue to manage the program, including designating third-party security providers, auditing companies to ensure adequate coverage levels, and keeping producers informed of that coverage.

- (2000)

We would also like to comment on licences on feedlots, which are not in the scope of the proposed changes and are intended for further discussion. The feed industry has changed in recent years. Industry consolidation and economies of scale have led to larger lots and stock levels.

While the design and application is complex, developing a second class of licences or extending the security program to larger feedlots would be beneficial to farmers.

Recent experiences with Puratone in Manitoba filing for bankruptcy and Big Sky Farms in Saskatchewan entering into receivership have had negative ripple effects on producers and the grain industry.

The Grain Commission has indicated their desire to implement the changes being discussed this evening in conjunction with an

increase in user fees. A 30-day public consultation on an initial user fee increase for 2013-14 and a subsequent 1.6% increase per fiscal year from 2013-14 to 2017-18 on all CGC services was launched November 1, 2012.

As previously indicated to the CGC, the CFA strongly believes the services of the commission are integral to ensuring high-quality, safe grain for Canadian and international consumers and as such should be considered a public good. Producers should not be saddled with these extra costs, and the CFA opposes the increases. While considering and enacting these changes, the government should ensure that the CGC is adequately funded to provide its various services.

In conclusion, the move to privatize inward inspection and weighing and to more wholly reform the CGC's role in the system is a significant departure from the current system. It is important that the government work with producers and their producer groups to ensure that the implications are fully understood and that the producers benefit from the changes.

Thank you very much for this opportunity this evening.

The Chair: Thank you.

Mr. White.

Mr. Richard White (General Manager, Canadian Canola Growers Association): Thank you, Mr. Chairman, and good evening to members of the committee. Thank you for inviting me here today to speak about Bill C-45 and changes pertaining to the Canada Grain Act and the Canadian Grain Commission.

I'm here today in my capacity as general manager of the Canadian Canola Growers Association, but I'm also a farmer actively involved in our family grain farm in southeastern Saskatchewan.

Canola is grown by well over 43,000 farmers from coast to coast. The canola industry is an incredibly important economic and agronomic contributor to the farms of Canada and to the broader Canadian economy, creating jobs, growing exports, and improving the health of Canadians.

Canola is a Canadian success story, going from minimal acres in the early 1980s to the largest cash crop in Canada today. But to continue this path of innovation, canola farmers need a reliable regulatory system that ensures our products meet the quality standards and product specifications required by our customers.

Reforms to the Canada Grain Act, and thereby the CGC, are necessary to maintain a world-class institution that is efficient, cost effective, and respected not only by our producers but by our customers around the world.

This year the government announced that the CGC would be moving to a cost-recovery model fully funded by farmers through increased user fees. As a national voice for canola growers, we strongly contend that reforms must be made to the CGC before implementation of the increased fees on August 1, 2013.

The changes introduced in Bill C-45 are a good first step, but more needs to be done. Removing the mandatory requirement for the CGC to conduct inward weighing and inspection is necessary and will help reduce the CGC's operating costs. Providing new options around security is also a positive move.

However, there are a number of areas the legislation fails to address, including governance and licensing. Changes to the CGC governance structure are imperative and should be included in the legislation that strives to modernize the CGC. Therefore, CCGA supports a modernized governance structure that maintains strong ties and accountability to both industry and farmers. In our submission to the Canadian Grain Commission, we advocated for a governance model that included vice-presidents reporting to a president, all of whom would be appointed by the Government of Canada. Additionally, our proposed model would eliminate the COO position.

Licensing is another area where change is needed. One of the provisions in the act currently gives farmers the right to ask the CGC to determine the grade and dockage of their grain delivered to a primary elevator if they disagree with the grade and dockage received from that elevator. The service is known as "subject to inspector's grade and dockage" and is not currently available at process facilities such as crush plants. With a significant portion of the canola crop now being delivered directly to crush plants, this provision should be extended to process facilities so that canola farmers are afforded the same rights, whether delivering to a processing elevator or to a primary elevator.

CCGA would also like to see flexible language included in the legislation that would allow for a third party to conduct outward weighing and inspection. While the legislation does allow for a CGC-accredited third party to conduct outward weighing, CCGA would like to see it extended to outward inspection as well.

A final important area that needs to be considered is public good versus private good. The CGC provides a large number of services that benefit the good of Canada, and these costs should not be included in the proposed increased user fees that will be paid solely by farmers. For example, the grain research laboratory, policy development, the maintenance of grain quality standards and assurance system, to name a few, should continue to be funded by the government, since we believe they are there for the public good, not simply for the benefit of farmers. It is our estimation that at least 25% of the CGC's budget should be funded from tax dollars, as these services benefit all Canadians. It is currently proposed at only 9%.

While we are pleased the government has taken a step forward with this legislation, we urge you to introduce another bill this

coming spring to complete the CGC's progress toward modernization. In the end, it is farmers who will be paying for the majority of the costs of the CGC, so they should have an institution that is lean, modern, efficient, and that advocates for them and understands their business.

Thank you for your time. I look forward to answering your questions.

• (2005)

The Chair: Thank you very much.

Mr. Atamanenko.

Mr. Alex Atamanenko (British Columbia Southern Interior, NDP): Thank you to the three of you for being here.

To put this in perspective, it is my understanding that the Grain Commission was created to protect farmers, obviously, as a result of abuses that probably took place in those days. We have now an institution that has been able to do that.

It would be important, if we make changes to the Grain Commission, to maintain this protection. Obviously, any changes should be good changes that won't potentially tarnish our reputation on the world stage. Also, there should not be a significant increase in cost for farmers, and farmers should not be more vulnerable. We want to make sure that we not only maintain the quality but that our farmers are protected.

You folks are on the ground. I'm still trying to wrap my head around this whole inward inspection thing. Currently, the law requires that the grain be inspected by government officials when it arrives at a terminal or a transfer elevator. If there's an infestation or something is discovered at this stage, it can be identified. The CGC alerts the elevators and growers and they try to isolate it. That is my understanding, and correct me if I'm wrong. Then it does not go any further.

If this inspection doesn't take place, is there not a potential for this infestation to go unnoticed? Is there not a potential for the ships being loaded to be loaded with contaminated grain, which would then be exported and would tarnish our image of quality? That is my question. I'm asking you folks on the ground to explain that to me.

Maybe, Richard, we can start with you.

• (2010)

Mr. Richard White: Thanks. That's a great question.

On the inward inspection and weighing, when a farmer delivers to a country elevator, it's looked at by the elevator agent. It's graded by the elevator agent and accepted into that primary elevator. That's the first inspection. They look it over pretty carefully. They don't send it to a lab to really look at the microbial aspect. However, it's already in the system. It's graded. Farmers have done their due diligence, usually when they grew the crop. There are not a lot of problems that occur in the production of grains and oilseeds. There are some issues, possibly, that could creep up, but again, they're not going to be caught, if there are any, at the primary elevator or necessarily at the terminal.

The real inspection that has to happen is the one on the outward part, before it goes to the customer. All the mechanics behind that, between the farm gate and the primary elevator and between the primary elevator and the terminal, are all contained within Canada. There are checks and balances along that system. Most of those have to do with the companies that do not want to buy grain that has a problem or may be contaminated. They look it over pretty well. It's in their best interest not to buy anything they aren't comfortable buying.

The end check, though, is the final inspection before it goes out of the terminal and into the customer's hands. You are correct. That needs to be maintained, but we can loosen up operational constraints, overlap, and duplication without jeopardizing food safety for our customers and without jeopardizing quality issues for our customers as well.

Mr. Alex Atamanenko: If grain comes in, and it's in a smaller-quantity car, for example, and it is inspected inwardly and something is found and isolated, that's looked after. But if it's not, and if it is mixed with other grain that comes in, is there not a potential for a whole shipload to be classed as contaminated if something is found during the outward inspection? Do you understand what I'm saying?

Mr. Gordon Bacon: The terminal operator is still going to have people who are doing an inward inspection and evaluation.

The real change—and I think Mr. Hermanson talked about it. When you no longer have a Canadian Wheat Board involved.... You would have, in the past, had grain that might have come from Viterra or Cargill that might have been unloaded at a UGG or a Richardson, depending on what era of the grain industry you go back to. That changed. Now you have companies that are shipping from their own country elevator to their own terminal facility. This made the need for inward inspection somewhat redundant, because it was staying within the company. That's the biggest change.

The terminal operators will have the same interest in ensuring the integrity of the product they're bringing into their facility as they would have in the past. That is something that doesn't change by not having the Canadian Grain Commission there. That's why you're not hearing a lot of concern from the industry about moving away from that inward inspection. As Rick has pointed out, the farmers cover it off at the primary elevator. There are still terminal operators who want to run a good operation. What's changed is this settlement of the finances, which were based on unloads, in terms of when the Wheat Board was involved. But we've moved beyond that now.

The Chair: Thank you.

Go ahead, Mr. Zimmer.

Mr. Bob Zimmer (Prince George—Peace River, CPC): Thanks for coming tonight, everybody. We've seen some of you before at committee; it's good to see you again.

I just wanted to talk about bonding in the legislation. We're moving from a mandatory bonding to an insurance-based model, as some of you spoke to tonight.

But for illustration for the committee, what are your issues with the current system of bonding, each of your organizations?

● (2015)

Mr. Humphrey Banack: In the current system of bonding, as has been explained to us, it's fairly expensive for companies to be involved and to be bonded. It's a cost to companies.

Not all companies have a bond. There are some companies out there, as Elwin said in his presentation, that are not bonded. They have different methods and different types of security.

For us, the cost of bonding is part of a basis that we pay on having every tonne of grain out there. Insurance of deliveries is absolutely important. For me to move 4,500 or 5,000 tonnes of grain a year...I'm moving 80 tonnes a week on average. For me to maintain that payment on \$500-a-tonne grain, I'm looking at \$30,000, \$40,000, or \$50,000 a week in grain sales. For me to just allow...on those kinds of things, I need assurance that those sales are there.

We do some bonding to unlicensed companies. A small portion is there. But it's very important.... Bonding, in the past, was felt to have been a holdback to small companies trying to get in. The bond can be prohibitive to them to enter into the industry, or that's what we've been told. The insurance may be a different thing. But from our perspective, the security for.... As our grain farms grow, it's going to be a very important part of managing that. As I said, I put a lot of that on the line every week.

Mr. Bob Zimmer: Yes.

I'm going to continue along, and then have your opinions, but can you also speak to the false sense of security that is often there with bonding? It doesn't happen all the time, but there's certainly a risk there that you're not going to get what you should. Perhaps you could speak to that, too.

I'll move to Gordon.

Mr. Gordon Bacon: The bond is seen by the grain companies as a cost of doing business. As Elwin pointed out, \$600 million is tied up. It's not put to use. It's not building a business. The grain companies were adamant that we needed to move away from the system.

We have questions about the insurance-based model because we don't know what the cost is. We don't know how it will change the competitiveness. It is difficult to endorse a change when we don't really know whether it's going to unlevel the playing field between companies.

Many grain companies will say they're concerned with having to be paying an insurance premium when the beneficiary is the farmer. Many grain companies will say it's not needed; bonds weren't needed, and we don't need to have an insurance program either.

Mr. Bob Zimmer: Just to get specific, though, your organization would probably agree with us that there are some questions about the current bonding system and its effectiveness. Is that accurate?

Mr. Gordon Bacon: It's only as good as the reporting. You can have circumstances arise that leave farmers without full coverage, which is the intent. But it's an expensive program and it wasn't foolproof.

Mr. Bob Zimmer: Richard, please.

Mr. Richard White: The bottom line is that we need producer security, so they get paid, whether it's bonding.... That may work for some companies and it may not for others. It's very expensive. It ties up a lot of capital. Farmers pay, ultimately, the cost of that through the basis, as Humphrey pointed out.

Moving to an insurance-based model...we like it because it's an option. It's not one-size-fits-all for every company. It's more market responsive. If a company can cover its liability with insurance cheaper than it can with a bond, we hope it would do that. That creates competition and a better deal for farmers in the end. There's not an excess cost to the system.

Mr. Bob Zimmer: You're already getting to the good answer. What I wanted to know, first of all, is what issues your organization had with bonding. You did talk a bit about the costs of it, but can you dig into that a little more?

Mr. Richard White: I guess we were always looking for the lowest-cost vehicle to provide the producer security. We could hear from several companies that bonding was very expensive and it tied up a lot of their capital, and it was costing us farmers money. In the absence of any options, we had to support bonding because it was either bonding or nothing.

Now, at least, there's an option for companies to pick. We're happy because we're confident that the security will be there, and it will be the most cost-effective security, company by company.

Mr. Bob Zimmer: So your organization definitely is in favour of the insurance-based model.

Do I have much time, Chair?

The Chair: No time.

Mr. Richard White: I would say we're in favour of an insurance-based model as an option.

The Chair: Mr. Valeriote.

• (2020)

Mr. Frank Valeriote: Thank you.

Thanks, gentlemen, for coming in.

You all talked about the user fees, and you heard Mr. Hermanson talk about user fees in response to my question. Although he said it was a good question, his response was vague, in a sense. I'm not suggesting that he was being evasive; it just looks like it's still in process.

You mentioned, as did you, Humphrey, in your letters to us: grain research laboratory, maintaining a grain quality assurance system, maintaining grain quality standards, food safety, policy development, traceability, and monitoring. These are all in the public good.

The farming industry is the only industry that I'm aware of in Canada where, when there are extra costs, they don't get passed down to the consumer; they get passed down to the farmer—all the time. It just seems to be a consistent trend.

I'm concerned that all these costs are going to get pushed right down to the farmer again. You heard his answers. Did you feel assured that you are being listened to and that these fees are not going to include those things that really are in the public good? Are

you satisfied with that? Rick, you said there has to be some reform before these fees get established.

Can we just go down the line? This seems to be the biggest concern.

Mr. Humphrey Banack: Through the consultation that was held earlier this year, we did raise the same concerns as Rick about governance and how the organization was run. You mentioned public good and services. There are a lot of things the Canadian Grain Commission provides that are of benefit to the public good, such as inward weighing and inspection. Some of these things are very specific to the operation of the grain industry.

Outward weighing is grain industry-specific, but our organization and our member organizations truly feel that there is a huge amount of public good in some of the fees and some of the structures around the CGC. We feel we should be able to not bear the entire cost of those. We're all involved in food safety programs in all of our industries, and those costs constantly keep coming down to us. You're right in that. We are bombarded by increasing costs, constantly. There are demands from people for food safety, for those kinds of things, and they are an issue for us. There is a bottom line to us, and it's only so low. That bottom line is drastically affected by increasing costs.

Mr. Gordon Bacon: I think the numbers I heard recently were that the Grain Commission was receiving over \$40 million, and if you're just cutting \$20 million out of a cost by changing things like inward inspection, you are going to have significant increases in licensing fees and other costs, perhaps a four to six times increase in the cost of a licence. Those costs will be passed by the grain companies back to farmers, which is why we were in agreement that we needed to have more streamlining of the Grain Commission as you move to cost recovery, so that farmers' costs are not driven up.

Mr. Richard White: Yes, and directly on the public good question, Mr. Hermanson has heard us, and I noted in his comments that the consultation is coming up and they are proposing a public good component. I believe he did say something along the lines of "we will see how this pans out in the consultation period".

So they are very aware of it. They know...I think he said it was hotly contested. My point here now is that the public good number that is currently being proposed is only about \$5 million, and that's about 9%, I believe, of the operating costs of the CGC. In my presentation we're suggesting that the government should be paying closer to 25% of their cost structure going forward. We would estimate, maybe even guesstimate, that that's the public good component of the CGC.

So it's coming in low. We will be consulted and we will express our concerns during the consultation process.

Mr. Frank Valeriote: You suggested a reform that, to me, coming from the corporate sector in my past life, looked a lot similar to a corporate governance model: president, vice-president, and stakeholders who have input and say on what's going on. I gather you don't have that input right now necessarily—input, but nothing that they're really accountable for. They don't have to come to you and seek, ultimately, your consent, only your input.

Are you looking for a model that actually requires the kind of input and consent of the stakeholders before they apply these fees?

• (2025)

Mr. Richard White: I guess what we're looking for is a structure. We had proposed this during the consultation process leading up to this legislation, so we're disappointed that the governance issue wasn't addressed. But we are looking for a more business-oriented governance structure, appointed by the government, because it is a government-legislated institution.

However, with user fees, that kind of changes the parameters now, and having a government-controlled agency just passing the cost to farmers doesn't really work for us. What we need is a governance structure that's more responsive to the needs of the farmers it serves and the customers it serves, and to be more business oriented in the approach to the movement, the grading, and the services they provide going forward. If I'm going to pay the bill, we can't afford to have waste, duplication, and excessive overhead in the organization.

We need the right accountability brought into this. We think that accountability comes with a proper governance model that will listen to farmers, that will respond to customer needs, and be more business oriented in the actual commercial movement of this grain through the system and into customers' hands.

The Chair: Thank you.

Mr. Hoback.

Mr. Randy Hoback: Thank you, Chair.

Thank you, gentlemen, for coming here this evening. We appreciate you giving up your evening to be with us, because this is fairly important.

There is one thing that I want to get cleared away with you, Mr. White. You talked about the fact that you'd like to see more changes. I agree that more changes are needed. But I think if you look at the budget and the changes that you see happening in front of us...they're actually implicated in the budget; they have an impact in the budget directly. I think that's why you see these types of changes here.

Like you, I hope we see legislation down the road, and I hope we see some of the governance changes that you propose and some of the other issues that you were talking about, because there is more to do in this file, for sure. I guess the NDP won't have the option to hoist the bill like they did in the past, to block it, so hopefully we'll actually see some progress, that we take this old wagon and actually turn it into something that's relevant to today's technology.

One of the things I think we need to highlight here, and it's always tough and difficult when you see a situation where fees have been frozen at 1991 levels, and all of a sudden now we have a day of reckoning.... There has to be a day of reckoning. I think everybody at the table here would agree there has to be a day of reckoning. When you do that, that day of reckoning, depending on how long you wait, gets worse and worse and worse. Where do you think we need to be on that day of reckoning?

Now I understand that we have a consultation process. You've got a proposal in front of you at this point in time. You've got 30 days now to come back with your proposal. For you guys, this should be no surprise because you've been thinking about this for a long time.

This has been telescoped back to 2006 and 2008, about changes, so there are no surprises there. But what do you think these fees should look like?

Obviously, as a farmer, or as a former farmer, I don't want to pay any fees at all. I agree with you; I don't want pay them. But the reality is that the taxpayer doesn't necessarily want to pay them either, so the government has to find an appropriate balance. You said 9%. I guess my question to you on 9% is, are you talking about the \$5 million? We also found \$20 million in savings that the farmer doesn't have to pay. How much credit do we get for that \$20 million, going to that formula of 9% versus 25%?

Mr. Richard White: We certainly appreciate the \$20 million in cost savings that are coming here, because that is significant. I think farmers are currently incurring about \$38 million of CGC costs. If the \$20 million savings hadn't come along, we'd be looking at overall fees of \$80 million plus, maybe even closer to \$90 million. So the \$20 million saving is appreciated. But it still creates a gap between the \$38 million we're paying now and the potential to go to \$50 million or \$55 million going forward under full cost recovery. That is still a big hit.

Even though we appreciate the \$20 million cost savings that we anticipate, it's still going to be a net increase to farmers that will probably almost double their fees, going from \$1.60 a tonne to possibly \$3 or \$3.50 a tonne after that. On a typical farm with 5,000 acres and growing a tonne an acre, that's 5,000 tonnes that a farmer produces. Those fees would have been \$8,000 last year; going forward they're going to double. It will be about \$16,000 for the average farmer. It is still significant, and that's including the \$20 million cost savings.

We're not looking for a subsidy or for the taxpayers to subsidize farmers for services that benefit farmers specifically, but we do want some recognition for this brand that the CGC has provided Canada. It's good for all Canadians that the maple leaf says something, not only for grain sales, but for Canada's reputation around the world. We think those are the kinds of things that the public purse is probably more appropriate paying for, rather than specifically and solely farmers.

As for the 25%, I think what we're saying is that we think that \$5 million number should be upwards of around \$15 million or \$20 million coming from the federal government for the public good component.

• (2030)

Mr. Randy Hoback: Again, using your math, you say \$15 million or \$20 million. You're basically suggesting still leaving things frozen at 1991 levels.

Mr. Richard White: Yes.

There's one thing that people—

Mr. Randy Hoback: Is that fair to the taxpayer?

Mr. Richard White: The one thing that people haven't been talking about in the consultation document for the user fees is that we have not really come to grips with the possibility or probability of 1.6% inflation, let alone the catch-up. We have the catch-up plus inflation staring at us in the face. That's why we are so interested in making sure this organization's costs aren't any more than what they actually need to be, and that farmers don't pay any more than their fair share going forward. There is a big catch-up.

You're right, Randy, but going forward on an ongoing basis, we've also got inflation to deal with as well.

Mr. Randy Hoback: Yes, no doubt.

The Chair: I'm going to ask Mr. Banack to make a comment and then we'll go to our next....

Mr. Humphrey Banack: I know from the initial consultations that were held last spring, our membership said that the drive...as Rick said, on a farm of my size it is going from \$8,000 to \$16,000. Our membership said to roll this in slowly; we can do this over a couple of years. We're looking at an instantaneous bang from \$8,000 to \$16,000. Our membership has told us to roll this in, not to make this a one-step thing. In the proposal we've seen since November 1, there will be inflation built into this. I guess our proposal should come back and say let's roll this in slowly.

We realize that the fees are there. Operating the business is part of where we're at. We need security. We need to know where our grain is in order to survive in the future. As an industry, we see the instruments that are provided by the Canadian Grain Commission, and the changes here are important to that. We recognize that the cost will increase. Our membership says let's roll them in; let's not double the cost in one day from July 31 to August 1.

The Chair: Go ahead, Ms. Ashton.

Ms. Niki Ashton: Thank you very much.

I just want to respond to a comment I heard earlier.

Mr. Bacon, in relation to not having heard concerns from people around what is being proposed here, you may or may not know that actually this committee is not listening to anybody who disagrees with what is being proposed by the government. Even though we don't have the chance to hear from people, that is not the case. For example, it was very important for me to hear from people from Churchill, in my constituency, who will lose jobs directly as a result of the removal of inward inspection. We're not hearing anything from anybody from my province, Manitoba, a proud grain-producing province that will also lose jobs in Winnipeg. That becomes a problem in terms of the kinds of decisions we're making based on the feedback we're getting.

The Chair: Mr. Hoback, on a point of order, please.

Mr. Randy Hoback: Chair, this bill has been through the process in the House for numerous years. They've had many chances in previous sittings to have input into this legislation as it has moved forward. It hasn't changed that much. It has just been contracted to what its original intent was before the NDP actually hoisted the bill.

I don't care how many hours we give Ms. Ashton, the member from the NDP, to look over this bill. She will not be satisfied with it. Let's face the facts. The NDP is not here to represent farmers; they are here to represent the big unions that empower them.

The Chair: I'll stop you there. It's not a point of order.

Ms. Ashton.

Ms. Niki Ashton: Thank you very much. I appreciate the fair ruling, and also the fact that committees are actually meant to listen to Canadians. For us, it may or may not be fun to listen to each other talk. I have my own personal views about Mr. Hoback's or anyone else's comments from that side. My concern is that Canadians who have some very different views from the ones we are hearing tonight aren't actually being heard at this committee.

Having said that, Mr. White, you did mention the continued commitment, which I believe is an important point that you would like to see from the federal government when it comes to grain research. In Manitoba, the Cereal Research Centre, based at the University of Manitoba, has been shut down. Research jobs have been lost. The Canadian Grain Commission office in Winnipeg that focuses on research is expected to lose jobs as well in that area. Is this a promising trend?

• (2035)

Mr. Richard White: I'm not sure. I'm here to talk about the Canadian Grain Commission. All those services they do provide are valuable. Many of those are for the public good of Canada, so my comments are basically about.... Yes, they are valuable. We have a world-class grain institution in Winnipeg, and the centre of Canadian grain is right in Winnipeg. But I think some of the research initiatives you're talking about are more about public and agronomic research and in other areas than what I'm here to talk about today specifically.

When it comes to the Canadian Grain Commission, those points about research and quality assurance issues are very important. They do a very good job at that institution. It's just a matter of how we are going to pay for it and who should be paying for it.

Ms. Niki Ashton: Sure. Our point is that there is a concern that research, especially when it comes to grain, is being cut substantively under this government.

But let's take a brief moment to go to the point of optional inward inspection. We are seeing some really dangerous trends around deregulation. XL Foods is something that has gripped Canadians. Obviously, we are not talking about the same—I'm glad it's a laughing matter on that side.

When we are talking about grain and the potential bacteria that might be there, while it might not be as attention-grabbing, there still are some dangers that inward inspection is able to trace. My particular concern is around eliminating inward inspection and the impact on perceived biosecurity weakness for the U.S. food import system. If grain is shipped to the U.S. by lake freighter and by rail from the terminal elevators and it's no longer inspected, the question is, how can we maintain that prime reputation that Canada has? Really, what is the problem with having optional inward inspection?

Mr. Gordon Bacon: Again, I'm not here representing terminal elevator operators, but certainly the 110 companies that are exporting grain, pulses, and special crops to more than 150 countries around the world...our whole reputation as a trade is based on having long-term relationships and being a reliable supplier. The emphasis on grain quality assurance and reliability doesn't hinge upon a single inspection on inward movement into a terminal. This is a system we have that goes from the farm gate right through to a follow-up on sales.

My view of this is that inward inspection was really something that was facilitating financial settlement in a marketing system that has now changed. The focus on quality assurance, safety, reliability, and meeting consumer needs doesn't change with that. We still have terminal managers who are not going to want infested grain coming into their facility. We haven't changed anything in making a good-quality product move to terminal position. I don't see there is a link, other than this financial settlement one. It certainly doesn't change the view of any of the exporters whose financial future and reputations are based on this ongoing assurance of quality. I certainly don't see how that is going to change by removing the mandatory inward inspection. I don't believe it undermines grain quality assurance in Canada.

The Chair: Thank you.

Mr. Payne.

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

Thank you, gentlemen, for coming out tonight to enjoy this nice evening with us. It's important that we hear your testimony.

I just want to follow up a little bit. It appears that the NDP wants to continue to have the inward inspections, but as you so eloquently suggested, Mr. Bacon, that is not necessary. The outward quality is where it really is necessary. I fully support that. We need to make sure that whatever we sell abroad has that Canadian brand, has that quality, and we know for sure that whoever is buying it knows they're getting the best grade that they've approached us for and have bought.

I want to just step back a little bit in terms of the consultation period. I think you were here when Mr. Hermanson talked about the consultation process on the fees starting November 1. I'm just wondering whether you all have had an opportunity to get your feedback into the CGC on that issue. And where do you stand on that right now?

• (2040)

Mr. Gordon Bacon: The meeting hasn't been scheduled. We haven't had the meeting yet, but we have been informed of the consultation to talk about that. We have had a call with the Grain

Commission, where they outlined to grain companies the changes that were being proposed, where we raised some of these same concerns that we've raised here in terms of the lack of detail around the replacement of a mandatory bonding with a mandatory insurance program, and the concern we had about whether that was going to ensure that we weren't providing an unlevelling of a playing field between companies in Canada.

Mr. LaVar Payne: Mr. Banack.

Mr. Humphrey Banack: When I was in the office today, we were looking over some of these fee changes. One of the things I did notice is that there would be a fee issued upon companies of \$500-and-some per month for the bonding side of this. The fee, I noticed, for the inward inspections for the third-party inspectors was \$147 a year. So in the uptake, it's going to take us some time. As you mentioned, we get the fees...we saw this on November 1. Today is November 6, so that's five days, and there was a weekend that most of us enjoyed. So it allows us four days to have a look at this. It's very hard for our office staff to have a look at this and put something out.

We will, as an organization, use our member organizations across the country—KAP, APAS, and Wild Rose in Alberta—to have a good look at this, because they are the biggest people hit by this in the prairie provinces. I'm sure we'll have something coming forward, but as I said, it's not going to be very quick. It's going to take a little time, as Gordon said, until we understand a lot of the costs around the insurance of producer support. I think it's a very important part of that.

We will be there. Thirty days is a very short turnaround time for anyone. We realize the time is upon us and we will do our best to make that time work.

Mr. LaVar Payne: Mr. White.

Mr. Richard White: Yes, we're analyzing it right now. We have the document and we're going through it with a fine-tooth comb. We'll be prepared to have our input and our acknowledgement of it, and probably more importantly our views on it, through that process within the 30 days. So we're not worried about a time crunch here. I think it's adequate. But, again, there's a lot of stuff to think through and we're just analyzing it right now.

We're confident we can provide some valuable feedback through the process.

Mr. LaVar Payne: Okay. I'm glad to hear you're all getting ready to get your submissions in. That's really important.

Mr. White, I'm still a bit confused around how you arrived at the 25%. Why is it 25%, and why is it not 15% or 50%? I'm quite confused around how you arrived at that. Maybe you could help me out a little bit.

Mr. Richard White: I don't want any confusion.

When you go back on those items that I identified as being public-good components of the CGC...we got some estimates on what those components cost. Basically it was just an adding up of what those costs were to maintain those services that are for the public good. We had an estimate through the consultation document about what the new CGC cost structure overall was going to look like. We just knew it was going to take \$20 million to \$25 million to continue with those public-good initiatives, and that just worked out as a percentage of the anticipated operating costs overall, going forward.

Mr. LaVar Payne: So we're heading down this path. Certainly I know Mr. Hoback indicated that there is potential for more changes down the road that he hopes to see, as well as you.

I guess what I'm looking at here is this. The Wheat Board monopoly has gone, farmers have that option, we're moving into the 21st century, and we need to do something with the Grain Commission. I guess this is the start of it. I'm assuming that you're in favour of moving forward with this to really help the economics, and certainly to make sure that it becomes an efficient organization as well.

The Chair: Do you want to make a very brief comment?

Mr. Gordon Bacon: I think you've nailed the point I was making. We have to continue the evolution of the Canadian Grain Commission, especially because we are moving to cost recovery. When there are going to be mandatory charges, we have to make sure we've minimized the charges across the board to the degree that we can, and we've taken a 21st century approach to dealing with some of these issues.

The Chair: Mr. Allen.

Mr. Malcolm Allen: Thank you, Chair, and thanks to all of you.

I hear the comments being made primarily by Mr. White, but also by Mr. Bacon and Mr. Banack, around how this thing evolved. Quite frankly, the dilemma for us as a committee is that we don't have control of this piece of legislation. We can't amend it; we're not allowed to. This has to go back to the finance committee. It's part of what in the jargon is called OB 2, omnibus bill number two.

I hear your request for hopefully going forward. Mr. Hoback is suggesting maybe it is, but I wouldn't hold your breath, because it will probably be in OB 3, in which case you will still be dealing with the finance committee, not us.

Inasmuch as you are here, and I appreciate your being here, the reality is that the finance committee makes the amendments, not us. We don't have the ability.

I hear my colleagues across the way saying whoa, but it's true. Their instructions to us were very specific as to what we were allowed to do. We can hold the hearing, we can hear you, and it gets it on the record. That's important, believe you me. It's very important that we hear from you and that you are on the record. That's a big part of what this is going to be.

The difficulty for us is that we can only make suggestions, and we're hearing a lot. Let me put that political piece out there. Hopefully the next piece comes to us, so that when we hear from you, we're making the amendments based on what your input is and we're crafting the legislation for agriculture through the agriculture committee, because I think that's where we should do it.

Let me go back to the bonding issue. I'm hearing from the three pieces of the chain here: Mr. Banack for the farm side, Mr. Bacon on the other piece of things, about the security of the issue.

Mr. Banack, is it fair to say that until you get some sense of security, you'd like to see it where it is, and let's not rush out of it?

● (2045)

Mr. Humphrey Banack: We had a PSRMP program from Agriculture, Growing Forward 1, that we did study in western Canada as to the different rules. We looked at producer payment. We looked at the bonding system, insurance-based proposals, producer funded. Each of the organizations took their time. Many of the organizations sitting here were involved in that. I know the general farm organizations were, and it was very difficult to come up with an answer because we don't understand it.

Our biggest concern is we have to have payment producer security. That has to be there at a level that covers those sales they make every week. When I'm making those sales and I expect them to be covered, if they're not covered, or only to a certain level, I have to know what level that is and what risk I'm having to handle going anywhere. Clarity is the biggest point out of the thing in the end.

Mr. Malcolm Allen: Mr. Bacon, you talked about the insurance model and the uncertainty of it, and perhaps unlevelling the competitive playing field from the perspective of...as we have now said, we mandate it be this way. We're mandating something else.

What I am struggling with is...I'm not sure where you want to take it. If you had a magic wand, what would you do? Would it be an insurance program, or would it simply be to deal directly with this person, so that it's a commercial relationship? What do you do between individuals? I want you to answer that.

Mr. Gordon Bacon: The view of the members of the Canadian Special Crops Association is that a range of payment options are out there. Many of us use electronic transfer whereby funds are transferred immediately. The question we are raising is, are we dealing with a 20th century problem in a 21st century piece of legislation?

In our presentation we raised the question as to whether that element that Rick referred to in subclause 45(1) should be implemented, whereby you are moving from bonding to insurance to lower costs. We're raising the concern of whether the insurance will now unlevel the playing field between companies, perhaps disadvantaging some of the smaller companies. The bigger the sale, the bigger the bond you had to have, so it was in proportion to the size of the business. When you change to a risk system, the questions we have are, what does that do from a premium perspective, and is that the role of government?

Because I am also a farmer, I understand that farmers want payment security. We have just raised the question about whether the insurance model is the pinnacle of policy development or whether there are 21st century options that could be looked at that could perhaps drive even more cost out of the system.

Mr. Malcolm Allen: Mr. White, this is a separate question about the public good, because I think you're sort of in that play as well, and you estimate that 25% should be the piece the taxpayer should actually put in.

Do you feel that's a finite cap at 25%, or is it a sliding piece? Is it 20% to 30%, or could it be 35% that we take on? By the way, I don't disagree with you. I think the public good is indeed a piece that plays out here, and I appreciate your organization taking the time to try to quantify that, because throwing the dart with the blindfold on doesn't really work all that well. So kudos to you and your organization for trying to quantify it, because it's not an exact science, clearly, but it's close.

I ask, do you have a scale or are you locked in at the 25%?

• (2050)

Mr. Richard White: No, I wouldn't lock it at 25%, because the Grain Commission's cost structure could change over time and all of a sudden the percentage would be out. That was simply to point out what we think is right and what is being proposed—9% versus 25%—and it was trying to compare those apples to apples for the here and now. It's not an absolute 20% or 25% going forward. It's more that here are the items we think the public purse should pay for, and if it totals \$20 million, that's \$20 million the government needs to support going forward, regardless of the CGC's cost structure around that for other services.

Mr. Malcolm Allen: It could be like an accordion; it could go in and out, depending.

Thanks. I appreciate the opportunity. No doubt I'm out of time, am I?

The Chair: A little bit.

Mr. Malcolm Allen: Thank you, Chair.

The Chair: Mr. Richards.

Mr. Blake Richards: Thanks, Mr. Chair.

Thanks to all of you. I know that in my previous time on the agriculture committee in the last Parliament I had a chance to meet with you and talk with all of you, but it's been a little while. It's nice to see you all again, and I appreciate you being here tonight—well into the evening—to share your thoughts and views with us. They're important to us, and we appreciate you being here to share them.

I have a couple of questions, and I'll start with you, Mr. White.

As I said to the earlier panel, I think many farmers—and I certainly agree—would see this as another step in the modernization of our grain system, especially in western Canada. Obviously, last year, with the changes to the Canadian Wheat Board introducing voluntary marketing and giving farmers that choice, that marketing freedom in terms of where they'll market their grain, whether it be through the Wheat Board or otherwise, that was a very big first step. I know that for farmers in my area that was something they were

seeking for many years, and they are very excited about the opportunities they now have as a result of that.

I think this is the next step in that modernization process. I know, Mr. White, you've indicated that you'd like to see further changes, further streamlining of the Canadian Grain Commission, and that's appreciated. I think there will probably be opportunities to hear more about that at some point as well.

Obviously, we're here tonight to talk about the changes that are being made in Bill C-45. I noted that in a recent press release you called it a good first step in updating an organization that has not seen any significant changes in over 25 years, so you obviously tend to agree with me that this is a good step.

I would like to hear a little bit more from you in terms of what you see as long-term benefits for the industry in these changes that are being made here. Could you elaborate a bit on your reasons for saying it's a good step, and what you see as some of the long-term benefits for the industry as a result?

Mr. Richard White: That's a good question.

It is a good first step. It does start to reduce costs, and, more importantly, get rid of some duplication, because there is some serious duplication that's wasteful, quite frankly. At least this first step gets rid of that kind of excess cost.

Going forward, the long-term benefit we would like to see is a more extensive approach to the Grain Commission's modernization agenda, and that would be the governance. If we can get the governance right, then the longevity of that organization will serve farmers and our customers much better than if we put in solid legislation that doesn't allow the organization to move or fluctuate according to market demands and customer needs. It needs to be flexible and it needs to be nimble to be able to adjust the services it provides, because the world market is constantly changing. Farmers themselves change as well.

Going forward, I think the next steps that we would strongly recommend be taken in the near term will set it on a much more relevant path to serving us in terms of ensuring that our quality assurance parameters are still there and the food safety parameters are still there. Those are all key features that keep us competitive in the world marketplace. We don't need an organization that's bogged down and locked into a process that can't be changed because of legislation. It needs to be more flexible and move as a business to provide efficient and effective low-cost service, because that is a competitive wedge that can emerge and knock us out of some export markets if our costs get too high.

• (2055)

Mr. Blake Richards: You mentioned duplication in your response. I assume you were talking about the inward inspections there. Is that what you were talking about?

Mr. Richard White: Yes. There is other duplication as well. It was subtle, but in my presentation we are going so far as to say that, on outward inspection and weighing—not just weighing, but on outward inspection and weighing—there should be a provision that an accredited third party could do the job.

We are aware of international customers that are dealing with a standardizing inspection company called SGS. It's global. It's well known. It has a reputation second to none. We have international customers that require SGS and they want SGS certification, but because CGC has to provide its outward inspection and weighing, they're both doing it. The customer wants SGS, and the grain company throws the CGC final certificate in the garbage at a waste of about \$75,000 on a big boat.

There is other duplication that is occurring that we think could be accommodated as well.

Mr. Blake Richards: Thank you.

The Chair: With that, I'll thank our committee for the questions and our guests for the answers. Thank you for being here.

We do have a brief five-minute organizational meeting at the end of this one, so I will ask our guests at the back of the room to clear the room as quickly as possible.

We'll have a three-minute recess, and then we will go in camera to discuss committee business.

[Proceedings continue in camera]

MAIL  POSTE

Canada Post Corporation / Société canadienne des postes

Postage paid

Port payé

Lettermail

Poste-lettre

**1782711
Ottawa**

If undelivered, return COVER ONLY to:
Publishing and Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5

*En cas de non-livraison,
retourner cette COUVERTURE SEULEMENT à :*
Les Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5

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

SPEAKER'S PERMISSION

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Additional copies may be obtained from: Publishing and
Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5
Telephone: 613-941-5995 or 1-800-635-7943
Fax: 613-954-5779 or 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Also available on the Parliament of Canada Web Site at the
following address: <http://www.parl.gc.ca>

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

PERMISSION DU PRÉSIDENT

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

On peut obtenir des copies supplémentaires en écrivant à : Les
Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5
Téléphone : 613-941-5995 ou 1-800-635-7943
Télécopieur : 613-954-5779 ou 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Aussi disponible sur le site Web du Parlement du Canada à
l'adresse suivante : <http://www.parl.gc.ca>