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# **Standing Committee on Agriculture and Agri- Food**

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**EVIDENCE**

**Tuesday, April 23, 2013**

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**Chair**

**Mr. Merv Tweed**



## Standing Committee on Agriculture and Agri-Food

Tuesday, April 23, 2013

•(1105)

[English]

**The Chair (Mr. Merv Tweed (Brandon—Souris, CPC)):** Thank you, and good morning everyone. Welcome to the Standing Committee on Agriculture and Agri-Food, meeting number 75.

Our orders of the day, pursuant to Standing Order 108(2) and the motion adopted by the Committee on Thursday, January 31, 2013, are for the study of the agricultural and agrifood products supply chain (beverage sector).

Joining us today from the Ontario Fruit and Vegetable Growers' Association....

Were you at the convention this past weekend?

**Mr. Arthur Smith (Chief Executive Officer, Ontario Fruit and Vegetable Growers' Association):** In Toronto?

**The Chair:** Yes.

**Mr. Arthur Smith:** I was there, but not on the weekend. I was there for a couple of—

**The Chair:** All right.

We have Arthur Smith, chief executive officer. And joining us by video conference from Penticton, British Columbia, is Hans Buchler, chair of the British Columbia Wine Grape Council.

Welcome. I'm sure you know that you're going to be giving a brief presentation. Then we'll move to questions and answers.

Hans, do you want to start?

**Mr. Hans Buchler (Chair, British Columbia Wine Grape Council):** Yes, sure. No problem.

Thanks very much for inviting me to this hearing.

First of all, I'll just give you a brief background on the British Columbia wine and grape industry. Then I'll go into a little bit more detailed analysis of the impact of research on the well-being of the wine and grape sectors.

The British Columbia Wine Grape Council was formed in 2006. It was a reinvention of the former research committee of the B.C. Wine Institute. It's now an independent body established under the British Columbia Farming and Fishing Industries Development Act.

The British Columbia grape and wine sectors have gone through quite substantial changes since 1989, mostly due to the signing of the free trade agreement. Before the free trade agreement, the grape sector was a fairly highly regulated industry. After the free trade

agreement it became a fairly integrated, open-market system. That has really benefited the industry to a very large extent. We have moved from pretty low quality bulk wine production to high quality—although a little bit expensive—production of wine. Approximately 60% of the grapes processed into wine now in British Columbia are produced by wineries. We have about, I think, 214 or 215 wineries right now that are processing grapes and, except for one, they are actually also growing their own grapes beyond buying some on the open market.

You might have seen the recent study on the economic contribution of the wine sectors in Canada. In British Columbia, the contribution is estimated at around \$2 billion, which, from our point of view, is quite substantial. I think there are about 10,000 jobs that are linked to the wine and grape sectors. There is also a fairly substantial impact on tourism, especially in the Okanagan, but also on the islands and in the lower mainland, to some degree.

Due to the very radical change in 1989 and 1990, the British Columbia grape and wine sector has made a full-out change in attitude to move from quantity production to high quality and environmentally sustainable production. One of the issues we have in this sector is that the cost of production is very high. Typically, if you are buying raw land now that's suitable for grape production in the Okanagan, the land itself costs between \$100,000 and \$150,000 an acre. That is already a very substantial investment. Planting grapes and investing in a winery is a very large investment. As well, labour costs are fairly high in British Columbia, typically around \$13 to \$15 an hour, although the minimum wage is around \$10.50. We clearly cannot compete in the bulk market wine for a low-priced product. We do focus on higher quality, the high-end, or at least middle-end product in order to be able to remain profitable.

One of the impacts of moving to quality is that we have to reduce yields. In general, industry has embraced this approach quite willingly. If you look at average production, it's between three-and-a-half to four tonnes to the acre in British Columbia, which is probably quite a bit below the global average. This is, to some degree, necessary because of the climatic challenges we face. In order to make that transition to high quality and environmental sustainability, research has played a critical role. Since the late 1990s, we have been very involved in research, mostly through the Summerland research station—the federal Pacific Agri-Food Research Centre in Summerland—and also lately through some projects at various universities.

Our partnership with the Summerland research station has proven to be very beneficial. We have a continuous research project going on there. All the researchers involved in the grape and wine research understand the direction that the industry is going in and are very supportive of this.

To give a few examples, we work quite a bit on novel approaches to pest and disease control. We are using things like vegetation management for insect control. To some degree there are a few success stories that have really changed the approach that growers are taking to the practice of viticulture. To some degree that also applies to wine research. In wine research the focus is very much on how to improve quality. But much of the wine research in the end also links back to the origin of the product, the grape. Most of the winemakers really believe the quality of the wine depends almost entirely on the quality of the grape.

In the last few years under Growing Forward 1 we have had a fairly large research project called the developing innovative agriculture products program. That was very beneficial for our industry. We have just applied for funding to the follow-up program to this, under Growing Forward 2, which is the agri-innovation program. We really like these programs because matching criteria are very generous from our point of view. If there is one criticism I have it's that these are five-year programs that are based on a first-come, first-served approach. If you miss the first run through the track, so to say, you might be out of luck for the coming five years.

Before Growing Forward 1 we were using the matching investment initiative program through the Summerland research station. It had its flaws, but one of the positive approaches on this was that one could apply on a yearly basis for funding. Eventually, it might be beneficial to return to a similar approach on Growing Forward 3.

I mentioned that we also do research through academic institutions, and to some degree that has worked out quite well. Most of the research we do through universities is ad hoc, very specific projects. So far we have not really been able to develop an ongoing program, a research program relationship with our academic institutions.

Things are changing, and maybe this will improve over time. But I would have to say that for us, the federally funded research station is really the best option we have, mostly, as I mentioned, because of the continuity of the research. That is really critical. You can build on past accomplishments instead of always trying to reinvent the wheel and starting from scratch. So it is beneficial to us, but I think it is also more efficient in terms of the spending of the research dollars, because you're not going back, re-evaluating, and revalidating past data that has already been collected.

I'll just very briefly touch on some of the future challenges. Because the B.C. wine and grape sector is relatively successful, we do see a lot of transition from the tree fruit industry to grapes. This has caused a little bit of a problem, because production has increased quite dramatically over the past few years. We now have over 10,000 acres in the ground, and every year there are close to 1,000 acres coming in.

●(1110)

This causes problems on two fronts. The wineries are working hard at catching up in the expanding markets. In British Columbia, I wouldn't say the market is saturated, but I don't think there is a lot of growth left in it. We've expanded our markets into Alberta and we are trying to expand into the other prairie provinces. We hope that eventually we'll get into central Canada.

A very small amount of product is being exported. These are more niche markets, really. I don't think that we will, in the long run, develop a very large export market. For one thing, we do not produce enough product to put a lot of dollars behind export market development, plus our wines are relatively expensive. Typically, in the export market cheaper wines do really well.

In terms of volume and price points sold in British Columbia, the B.C. VQA in the British Columbia market covers almost 19% of the consumption of wine by value. In volume, this is 13.3%, so you can see that there is quite a bit of a discrepancy toward the average.

In B.C. the "Cellared in Canada" product line is similar to the one in Ontario, except that in B.C. the content is not mandated, so many of these products do not actually contain B.C. grapes. The value in the B.C. marketplace of that segment is 24%, and the volume is almost 37%, so there is a really huge difference in pricing between these two segments.

We really do not see how we could possibly compete in the low-price category. It is simply not feasible with the cost of production and the size of the industry.

Some of the challenges we are facing are related to climate. These last three years, including this year, we have had late-starting springs and very late falls, which is sort of a godsend and has helped us along quite a bit, although there is a bit of uncertainty. We are really on the very edge, climatically speaking, of where growing grapes is feasible.

One of the advantages to this is that quality parameters are very good in years where everything goes right, but there is the odd year where yields drop substantially and quality doesn't quite reach the expected values.

Other challenges relate to water. We are in a very dry, semi-arid climate in the Okanagan, and there is more and more competition for a very limited amount of water, although the grape sector is very good at efficiently using water. We use a lot less than the actual evapotranspiration, so environmentally speaking, we are making a lot of progress, and we are planning to sell this as a value to our product in the marketplace eventually.

●(1115)

**The Chair:** Hans—

**Mr. Hans Buchler:** Just to finish, our options are to build more and more consumer loyalty, based on the bylaw codes of B.C. or the Canadian product approach. We are hoping to continue our research efforts to support the ever-increasing demand for higher quality. Also, there is always a changing consumer attitude regarding what they would like to see in the marketplace.

That pretty much concludes my initial remarks. If you have any questions, I'm quite happy to answer.

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

We'll go to Mr. Smith for his presentation, and then we'll move to questions.

**Mr. Arthur Smith:** Good morning and thank you very much for the invitation.

My name is Art Smith. I'm the CEO of the Ontario Fruit and Vegetable Growers' Association, and we are one of Canada's oldest farm organizations, at somewhere over 150 years. I think this is our 155th year.

We represent about 7,500 fruit and vegetable producers in the province. Our sector creates and supports about 30,000 or more arm's-length on-farm jobs, and another 8,000 or so in the food processing sector specific to fruits and vegetables.

In addition, in Ontario—you'll see this in my brief—we are very, very diverse as a grower sector. We produce over 125 different crops, some for processing, some mostly for fresh, and of that, Norfolk county is the most diverse and is the largest producer of many crops, such as sour cherries, asparagus, squash, strawberries, etc.

At your invitation, I'm here today to talk about the issues facing the fruit-based beverage industry in Canada, and I can assure you the issues are not unique just to this sector.

The Canadian juice industry faces a very competitive environment. This is due to the expanding global fruit production, consolidation of the manufacturing and retail sectors, more stringent bio-requirements, and increased foreign competition. There are also challenges stemming from high production costs and competition from other drink categories, such as sports and energy drinks.

The last two decades have been marked by a decline in the number of juice processors in Canada. Our sole processor of juice grapes closed its operations in the late 2000s, leaving no market for Concord and Niagara juice grapes. Tomato producers used to have four large juice processors in the province and now have only one. Ontario apple growers have been reduced from having six significant juice processors to only one.

Before 1980 there were 30,000 acres of apples grown in Ontario, with 25% of those destined for the juice market. Ontario growers also shipped juice apples to markets in neighbouring Quebec and New York State. Today there are approximately 16,000 acres of apples remaining in Ontario and the juice market is one for low-value products only that do not meet the fresh market standards.

The average price for juice apples is approximately \$110 per tonne, and much of the juice that we get in Canada today is shipped from China. Many tomatoes continue to be grown specifically for

juice at an average price of approximately \$105 a tonne. It is, however, a stagnant market.

Red Concord and white Niagara juice grapes have all but disappeared from Ontario due to the loss of the only processor. At its peak, grape juice production represented over \$6.5 million in annual farm gate sales. As well, farmers incurred costs for approximately an additional \$12 million to physically remove the grapevines as a direct result of having lost that processor.

On the alcoholic fruit-based beverage front, Ontario's industry struggles with distribution and labelling issues. The removal of protections for domestic grape production through the introduction of the Canada-U.S. free trade agreement brought significant changes to the Ontario grape industry. Wine grape production in the province declined—it has since rebuilt—leading to the removal of approximately half of the wine grapes in the province in the early 1990s.

Prior to 1990, "Product of Canada" wine required a minimum of 70% domestically grown grapes. After the free trade agreement was implemented, a short-term adjustment was made so that as little as 30% Canadian grown grapes could be used and the wine could still be classified as a "Product of Canada". By 2000, following a decade of transition, it was meant to revert to its original standard of 70% minimum Canadian content, and a maximum 30% foreign. This did not happen.

• (1120)

The "Cellared in Canada" category today is an official category and foreign wine content in this category, at least in Ontario, has ranged anywhere from 70% to 99%. Unfortunately, the use of the label is grossly misleading to consumers who see the terminology and assume they are buying Canadian wine, when the majority of their product was only blended here. This remains a contentious issue in the Ontario grape and wine industry.

It is worth noting that Canada is the only wine producing country to allow wine with less than 75% domestic content be considered a product of Canada.

Outside the several designated viticulture areas in Ontario, farmers are limited to fruit wine production and there are restrictions regarding how much of the total grape production on their farms can be used in alcoholic beverage production.

In addition, distribution is a key problem for fruit wineries. Fruit wines are not distributed through the LCBO, which controls the sale of wine and spirits in Ontario and is one of the largest single purchasers of beverage alcohol in the world. Farmers are also not allowed to sell their fruit wines or other alcoholic fruit beverages, like cider, at farmers' markets, so their only outlet is from their licensed facility or premise.

Like many western countries, Canada is a high-cost producer. Over time, the spread between the production costs and the price of the finished product has increased significantly and has eaten away at the juice market.

Processors, if they are still in business, are importing juice concentrate from countries that can produce it at a far lower cost than here in Canada. This is typically based on fewer regulations, lower labour costs, as well as yield in those supply countries. As well, buying concentrate eliminates the need to pay for shipping water as a principal ingredient in juice and containers such as cans or glass.

Domestic fruit and vegetable production profitability has also decreased. The loss of this domestic juice market has meant lost revenue to farmers as there is no alternate market for less than perfect produce.

As I mentioned earlier, Canadian fruit and vegetables and products derived from them are being priced out of the market.

This is partially due to today's global marketplace, where prices for fruit and vegetables are set on the world market based on the lowest cost. This makes Canadian farmers price takers and not price setters. It is also partly attributable to government regulations in areas such as labour, food safety, and the environment, which have downloaded additional costs onto Ontario farmers, and this would hold true across Canada, costs which are not recoverable from the marketplace.

The only growth sector is the niche or the specialty fruit and vegetable juice blends that we see in the marketplace. These are higher-priced specialty drinks, such as those produced by Arthur's in Toronto. While they are blended and bottled in Canada, they are primarily a foreign product. I am referring here specifically to the non-alcoholic.

Looking to the future, there are ways the government could assist in rejuvenating the fruit-based drink industry and, as I said, this would also help other sectors as well.

Changing the Canadian content of the main fruit ingredient in fruit-based beverages is one such example. In the past, "made in Canada" claims could be made as long as 51% of the total product costs were incurred here in Canada. This resulted in many products being labelled as Canadian when they contained mostly foreign ingredients. This was changed around 2008.

The new "Product of Canada" labelling guidelines introduced several years ago require 98% of the product's ingredients to be of Canadian origin. That sounds good in terms of that product, but many food products require not only fruit and vegetable ingredients that can be grown here, but also ingredients like sugar and spices that cannot. This was deemed to unfairly exclude too many legitimate Canadian food products. To give you an example, if you had a can of peaches and it contained all Canadian-grown peaches but had foreign sugar in it because we don't grow sugar here, that wouldn't meet the 98% rule. That would disqualify it as a product of Canada.

A level somewhere between the two extremes would provide new opportunities to farmers and food processors to take advantage of the growing demand for local food products. A change as simple as requiring 90% of the named main fruit or vegetable ingredients in a beverage to be grown in Canada to qualify as a product of Canada would give consumers a clearer understanding to make an informed choice.

●(1125)

Revising labelling laws for Canadian wines would make it easier for consumers to understand what they are buying. It is easy for people who are not familiar with the industry to misinterpret "Cellared in Canada" and equate it with "Product of Canada", resulting in assumptions that they're buying locally grown product when in fact they are not.

We also recommend maintaining the standard containers act. The standard containers act allows goods to move across borders only if they are in a standard container. The standard container is what CFIA regulates and classifies it as.

Removing this act would allow foreign product to come into Canada more easily than it currently does, creating further pressure and increased competition for processors. Keeping the act would keep Canadian processors in business longer and protect producers and small Canadian processors as well. As an example of this, the Americans had typically had different sized containers than we have had, and the cost of adapting and changing processing lines to our processors would be very large. The concern that a number have expressed is that the international—the head plant in the States, for example—will simply say they can now move that product in here, that they don't need to have two processing plants. It could cost them that.

We recommend harmonization of crop protection materials. Canadian farmers currently pay 56% more for the same products farmers in the United States are using, even when we're allowed to use them here. That is the difference on the U.S.-Canadian side. Harmonization of crop protection products would mean having the same products at the same cost, available on both sides of the border. This would lower production costs and put Canadian farmers on a more equal playing field with those in the U.S.

We recommend the establishment of a PACA-like trust. Some of you may have heard of this. In the United States, it is the Perishable Agricultural Commodities Act, or PACA. It licenses buyers of produce, whether for fresh or processing markets, to ensure that those who sell produce are paid in a timely fashion. We have been lobbying for the establishment of a made in Canada PACA-like program that extends the same benefits to the Canadian produce industry as in the U.S. Timely payment guarantees by PACA would provide additional stability and security to the fruit and vegetable sector, allowing both producers and processors to have confidence in the business process.

I'd like to conclude by saying that the local food movement continues to gain strength in Ontario and across all of Canada as consumers look for ways to reduce their environmental footprint and support local farmers by buying homegrown fruits, vegetables, green meat, and dairy products, etc.

Our climate makes it challenging to enjoy most Ontario produce on a year-round basis without it being processed in some way. As well, in addition to crops grown specifically for processing, food and juice processors represent a valuable market for fruits and vegetables that don't quite meet the high standards of perfection consumers and retailers in the fresh market have come to expect. As we have experienced over the past two decades, when those markets disappear, jobs are lost, farmers must alter what they grow—which can also affect jobs—and consumers lose yet another chance to buy locally grown produce.

Thank you for your attention, and I would welcome any questions at this point.

● (1130)

**The Chair:** Thank you.

Mr. Allen.

**Mr. Malcolm Allen (Welland, NDP):** Thank you, Chair, and thank you to you both for being with us today.

I was interested in your comments, Mr. Smith. Obviously when you're referring to the grape juice industry, my neck of the woods in the Niagara Peninsula was a place hard hit by that. In fact, I know the Wiley brothers really well, who suffered a significant impact when that happened to them as well.

We know what happened when Cadbury Schweppes packed up and moved and when CanGro also left, what that meant to the fruit industry—primarily in the peninsula—when the last processor of fruits east of the Rocky Mountains decided to leave.

There was a two-year deal, if I remember correctly, for those who grew Concords and Niagaras. They could take them across to the U.S., but that ended. There was no subsequent deal, if memory serves me correctly. And we're now down to.... Basically, if you want Canadian-grown grape juice, you go to a farmer's market to buy it from an individual farmer who still may have a few acres left over and who didn't get into the pull-out program, which was few and far between.

I'm interested in this because of the processing that we've seen leave the peninsula and what that's meant for clingstone peaches, which got hauled out, and Niagaras and Concords, which got hauled out, where you've got a farmer who goes back into something else. That doesn't happen overnight. As you and I are aware, if you replant, you're talking years before there's a yield.

I want to have you talk to us about the importance of the processor. What does it mean for local producers? What impact do the changes to the container sizes have on those processors?

What it ultimately means is that it daisy chains all the way back down to the primary producer. What I heard in Southwestern Ontario two weeks ago was that this industry would be decimated, that it would be the fruit and veg industry down that way that would be decimated, if these container sizes change.

Is there truth in that, or is this somebody just saying it because they're nervous? Is it true?

● (1135)

**Mr. Arthur Smith:** No, it's absolutely true. Typically there's been a difference between Canadian product and American product in terms of retail container sizes. We also have containers for raw products. That standard container was put in place to really protect growers from low-priced product being dumped into the Canadian market. Now that is currently being threatened as well.

As far as the processors are concerned, if you're a multinational and you have a plant in Ohio and one in Leamington, that's a no-brainer. You just supply the Canadian market from the U.S. side. So they're very concerned about that, because they're not going to retool those shops in Canada at huge expense unless there is a profitability factor, but if you're a multinational, that's not going to happen.

For a smaller processor, we do have higher costs of production in this country, and we have to recognize that. If it's now going to come out of the U.S. at a reduced price, the competition for the Canadian processor is that much greater, and it's that much more difficult for them to stay in business.

**Mr. Malcolm Allen:** Mr. Buchler, do you see any issue with changes to container size for the B.C. wine industry? I know here in Ontario they've made it very clear that they see a significant impact on them. Would there be an impact on the B.C. industry?

**Mr. Hans Buchler:** This is hard to say. There are a few wineries that are actually calling for changes in container regulation under the VQA system, who would like to put a bag in a box and have other more environmentally friendly containers on the market for VQA product.

I think this is not an enormous issue right now. Eventually, things will be able to be negotiated.

**Mr. Malcolm Allen:** Fair enough. The industry in B.C. is slightly different from the one in Ontario, because we see bag-in-box here now in Ontario. I recognize it's a provincial issue.

Mr. Smith.

**Mr. Arthur Smith:** It is a different issue. In Ontario, that's a VQA standard. It's not necessarily a legislated standard. So when you see bag-in-box, which we do have—and, Hans, you could disagree with me, because it may be different in B.C.—that was the regulation, if you will, of VQA Ontario. It was like the cork in the bottle versus a twist cap.

**Mr. Malcolm Allen:** The changes in the wine industry, as Mr. Buchler knows, and I know Mr. Smith knows, are quite significant—whether we need a cork or whether we're going to use a screw-top or whether we can put it in a bag. There's the whole issue about how we like things to be done based on historical pieces that go on.

**The Chair:** Or we can use a brown paper bag.

**Mr. Malcolm Allen:** I don't think we use brown paper bags any more, Mr. Chair.

**The Chair:** Mr. Zimmer.

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

Mr. Buchler, I'm from northern B.C. We have a lot of agriculture up there, but we don't grow a lot of grapes, I will say. It's nice to hear you mention some positives about the research programs such as Growing Forward 2 and how they positively affect the industry.

I did hear concerns previously from more Ontario growers and vintners about limited shelf space at the local wine store. I know you're a grape guy, but I'm sure you said a lot of the grape growers produce wine too. Have you seen this as an issue across Canada, or is it just an Ontario issue? Have you seen this in B.C. as well? Can you comment on that?

**Mr. Hans Buchler:** Thank you.

B.C. is a little bit different. I think in the B.C. liquor distribution system, in the LDB stores, the B.C. VQA and non-VQA wines do get a fairly substantial amount of shelf space. We also have, I think, about 30 VQA-specific stores in B.C. that sell only VQA wines, no imports at all. That system was established with the B.C. Wine Institute. It has been very beneficial for the distribution of VQA wines.

We have a growing number of private liquor distribution outlets that maybe are in competition with the B.C. Liquor Distribution Branch, but many of them stock very large amounts of B.C. products. It depends where you are. Maybe in northern B.C. it might be a little bit different, but in southern mainland B.C., you do see many private liquor outlets with a very good selection of our local products.

• (1140)

**Mr. Bob Zimmer:** Thanks for that.

We like what the industry is doing. The legislation of a colleague of mine, Dan Albas, allowing for the interprovincial transport of wines was recently passed. It has been a definite positive. But what are some of the risks to the industry that you see—and this is why we have you here—from your B.C. perspective? We see that it's doing well, but we want to keep it doing well. What do you see as some possible things that we can do to help that continue, and some risks?

**Mr. Hans Buchler:** Thanks. Certainly that legislation was a great step forward. The problem is in the implementation. The provinces seem to be relatively slow in jumping on board. There are still quite a few barriers in place.

The market expansion in Alberta is working fairly well. There's a fairly good relationship between B.C. and Alberta in this regard. But in terms of other provinces, I think this is going to take quite a bit of work. I'm not sure if it's just a matter of time. It might just take time and fairly intensive negotiations to come to some agreements. But it's not really all that easy to ship B.C. wine into some of the other prairie provinces, not to mention Quebec and Ontario. Eventually, I hope this will change.

One aspect that might actually be beneficial in the future would be an expansion of direct delivery from B.C. into other provinces to act directly to the consumer. I'm not sure how easy it will be to implement this, but it would be great progress. We are facing, potentially, issues of overproduction if we are not able to expand our market within Canada.

**Mr. Bob Zimmer:** Do I have more time, Chair?

**The Chair:** Yes, you have 40 seconds.

**Mr. Bob Zimmer:** Perfect.

I have a last question, Hans. What do you see as some of the new trends for your industry, especially in B.C.? Where do you see the future going? You talked about other markets interprovincially, but do you have any other things that are coming on the horizon that are positive for vintners?

**Mr. Hans Buchler:** The quality of B.C. wine has increased dramatically over the past 10 or more years, so the market segment where we think we need to be is in high-quality product, which does fetch a little bit of a higher price. On average, I think a bottle of B.C. VQA wine is around \$18, which is quite substantially above what you pay for cheaper Australian or American imported wine. We have, to some degree, managed to build loyalty from a segment of the consumers, but this is a bit of a problem for us because there is also a growing perception within B.C. that B.C. wine is too expensive. This is a serious challenge that we are facing. There are a few reasonably priced products on the market, but in general these are basically not making any profit for the winery. There's really no way we can sustain this part of it.

**The Chair:** Thank you.

Mr. Valeriote.

**Mr. Frank Valeriote (Guelph, Lib.):** Thank you, Hans and Arthur, for coming up to see us today and giving us your valuable time.

Art, I'm looking at your presentation and I see a number of problems in the industry. I can't help but reflect on a meeting I had with a fellow from Global Orchards or Global Fruit, I think. He showed me this incredible device that he uses to spray pesticide on the apples. They've devised a new apple tree that looks more like a grapevine than an apple tree, and it enables him to really confine the spray and prevent overspraying.



My question to you is this: what's the role of innovation in your industry? How might innovation help you deal with a lot of the issues that you've raised in your presentation? And to what degree will innovation adequately replace the business risk management programs that have now lost close to \$425 million in support from the Canadian government?

• (1145)

**Mr. Arthur Smith:** I'll try to answer your question. I'll probably forget some of it, so if I don't answer it all, shoot it back at me.

First off, innovation has been critical in our industry. We look at what's happened in B.C. wines, and the same thing in Ontario wines. There's been a tremendous transition from old types to new types. There's been all sorts of research on varieties. Our growing techniques have changed. We were slow because, quite frankly, we didn't know how to grow them. In the seventies and even into the early eighties, we were told we could never have a vinifera industry in Ontario. Innovation has moved that forward.

Research is critical. Our problem is this. In the document, I said that we produce over 125 different crops. If you look at the grain sector, and whether it's the Monsantos or Syngentas of the world, which do seed breeding and so on, there have been tremendous increases in yields. Well, if you took one penny for every bushel of corn that was grown in Ontario, or every bushel of wheat, you'd have quite a pile of money. If you took one dollar for every [*Inaudible—Editor*] of strawberries, you'd probably have a million dollars. So the level of the funding becomes a critical issue.

I said we produce 125 different crops, so what you'd do on tomatoes or on strawberries or on peaches has absolutely no relevance to any other crop. That's a huge problem for us. It's that critical mass of dollars.

Also, as Hans mentioned, there is a critical need for long-term research projects. If you don't have this—if you don't have a commitment to a plant breeder, as an example—for more than four years or five years, you're not going to attract the greatest of the plant breeders. Unfortunately, at least in Ontario, OMAFRA has gone away from extension services and the research services. From the 1980s, through attrition, we have lowered and lowered the amount of research that has been going on, and that has had a tremendous impact.

Today, with the federal and provincial governments and Growing Forward 2, there's more emphasis on innovation, and also “skin in the game”, if you will, or grower dollars. That's where we struggle. As an organization, we have had some programs over the last few years. We allowed our farmer members, our association members, access to a pot of money that we had to do research. Then this past year we didn't because we had a issues of our own. So that's critical.

On the innovation side—and this is my biggest single concern—with Growing Forward 2 we have seen the loss of \$475 million from the business risk management 1 component. We have seen the major change in AgriStability, from the 85% tier as the trigger point, down to 70%. What that really means is that you would have to drop below 85%—and now 70%—of your reference margin before you would trigger a payment. If you are in a single crop, whether that is grapes or cherries or hogs, you will have these fluctuations in the marketplace. All of the programs, Growing Forward 1 and 2, were

designed to kick in with these commodities that tended to do that. However, if you look at most of the fruit and vegetable sector in Ontario, in tender fruit the farmer will probably have some cherries, peaches, and pears. He'll have a number of crops, and that was a necessity just for the labour practices.

Because of that diversity, you've already taken a lot of that fluctuation out of it. It's like the stock market: if you diversify there, you moderate the ups and downs. Yet, the program itself is designed for the major ups and downs. That is a problem for us. Moving forward in Growing Forward 2, we were opposed to it, but we have what we have today.

The other issue that I think is critical, as I said, is the move away from the loss of \$475 million and putting it into the non-BRM component and saying we have to innovate.

• (1150)

This industry has been tremendously innovative. You talked about Global Fruit and some of the stuff they're doing in growing apples on trellises. It's great. It's labour-consuming. There are a lot of things going on, but they probably invested \$45,000 an acre to do it. Now, it may not have been quite that much, but back when I was on the grape board in Ontario, to do that with an acre of grapes cost about \$25,000, and that's going back about 15 years. It's an expensive process.

The other reality is that if you want to compare grain versus horticulture, grain is done on very, very large farms, especially in the west. They have huge tractors. They have huge combines. Every time you need to get more efficient, you put a bigger piece of equipment in. In tender fruit, you have trees in the way. You can't put a bigger tractor in; you can't put a bigger disk in or anything else. More important is labour. In the tender fruit industry, labour makes up about 65% to 70% of the annual variable expense of operating that farm.

Till now we have not developed a robot or piece of equipment that can select the peach that needs to be picked and gently pick it off the tree and put it in the basket, or whatever. That hasn't been developed. I suspect we're not that far away from that, but it may be 25 years. We are working on innovation of the easier things.

If we look at the grape industry, in the 1960s the grape harvester was developed. It was a simple machine inasmuch as it went through and took everything off. It didn't select but left the leaves on and the branches or canes, but took the fruit. Cherry harvesters did exactly the same: they took everything. In much of it, if you're talking about peaches, there is selectivity that's key. We haven't developed that equipment yet. We will see it. My fear is that as we move away from the business risk management component of it and say we're going to replace that over here and that it's going to be the solution to the problems, it won't. It will take way too long.

The other reality, historically, at any rate, is that people who innovate—and everybody does—benefit from that for the first four to five years. If we look at the grape harvester as an example, when that came on stream, when you did production costs and whatnot for negotiations, the old hand-picking cost was the cost. If you had a mechanical harvester, you could do it for much less, but after about five years they got rid of this one and this became the cost.

What happens is that technology then becomes the norm. Once it becomes the norm, there's no advantage to the individual who innovated. The disadvantage goes to the guy who didn't. If you understand that, there's that shift.

Innovation in and of itself is required, it's necessary, but is not going to be the panacea that a lot of people think, unless of course no one else innovates globally.

**The Chair:** Mr. Lemieux.

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

Actually, I'd just like to pick up on that last train of conversation, because I think it's important to have that conversation about technology and how it can help farmers. Although there were changes to BRM, there certainly was increased funding given to science and innovation.

I was reading in your brief—and having listened to Hans as well—that one of the challenges our farmers have is that the cost of production can be higher than in other countries.

For example, when you're talking about advances in machinery to help with harvesting, I would see that it would be advantageous to Canadian farmers. What I hear you saying, and perhaps you can correct me, is if a number of farmers buy that, then they lose that edge on the technology. That might be within the Canadian market, but in terms of being more competitive internationally, other countries may not have the wherewithal to have that technology. You're becoming more competitive because your cost of production is dropping for the average Canadian farmer, which makes them more competitive on exports.

Certainly this ties together with our trade agenda because it's a multi-faceted approach. Not only are we investing in science and innovation, but we're also doing it to make Canadian farmers more competitive, more competitive to sell internationally, and we're putting in place favourable trade agreements for Canadian farmers to sell their product internationally.

There are a lot of initiatives that work. They don't just fall under agriculture, but they're meant to work together to allow our farmers

to be more competitive in selling their product, be it domestically or internationally.

I'm wondering if you would have any comments on that, and what you think of these trade agreements. Do you see those as being of help to your sector?

• (1155)

**Mr. Arthur Smith:** First, on the technology side, you're absolutely right. We start by trying to innovate to reduce our costs here. Innovation, whether it's a grape harvester or a grape pruner or whatever that technology may be, will cross the border pretty quickly. If there is an issue in Chile with labour and you have a labour-saving technology, it will move there; it probably won't move there as quickly, because they don't have the same labour costs as we do.

So there will be some adjusting in there. There's no question about that.

What was the other half of your question?

**Mr. Pierre Lemieux:** It was about international trade, and it being perhaps favourable to making our farmers more competitive in that they would have reduced tariffs and duties on Canadian product arriving in the country with which we have a trade agreement.

**Mr. Arthur Smith:** Only a number of Ontario-grown products, and that's all I can speak to here, are exported in any major way. We do have apples that still go to Great Britain and elsewhere.

We have the greenhouse industry in Ontario, which is the largest greenhouse sector in North America. It exports about 79% or 80% of its product. It has gone through tremendous growth and is still growing.

Over the last couple of years the sector has come into some real difficult times around pricing. Some of that could have been as a result of the Canadian dollar. Two years ago it was a result of Belgian peppers being dumped into Canada because they'd been shut out of other markets. Last year there were pricing issues that lasted throughout the spring. My understanding is that they're right back into the same thing this year. They're also dealing with competition coming from Mexico, which is also problematic. So it's a number of things.

I think we need to have access to it. Relative to foreign markets, it's a significant part when we measure it in dollars and cents. It's a small part when we measure it across the variety and diversity in horticulture and numbers of crops.

As I said, there are apples that move over—

**Mr. Pierre Lemieux:** Yes, and I find that interesting. We'll often hear a concern that American apples come into Canada, but then we also sell Canadian apples into the U.S. I find it interesting that apples are moving both ways.

**Mr. Arthur Smith:** They move both ways.

**Mr. Pierre Lemieux:** Yes, they move both ways, which is interesting.

It brings me back to the science and innovation and competitiveness theme. If we make our farmers more competitive, even here in North America, that would help us with exports, to the U.S., for example. We're already selling into the U.S., so obviously the obstacles are not insurmountable. It's a question of gaining an edge and then keeping the edge, either through the application of science and technology or by always moving ahead with science and technology so that we're always at the forefront of it.

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

Go ahead, Mr. Atamanenko.

**Mr. Alex Atamanenko (British Columbia Southern Interior, NDP):** Thank you very much.

Thank you to both of you for being here.

Mr. Buchler, in his presentation Mr. Smith was quite adamant that the new container size regulations could have a devastating effect not only on the industry but on the communities and on farmers.

We had Dan Paszkowski, the president of the Canadian Vintners Association, here last week. I asked him about that when we had a little chat afterward—we didn't have a chance to talk about it in committee—and he said that he felt it would also have a negative effect on the wine industry.

I seem to remember him saying that now we have those boxes and they're four litres, and we have these standard sizes of wine. This would allow us to import wine in 5.5 litres or 4.5 litres, for example, in non-standard sizes that could hurt our wine industry, just as the importation of products in non-standard sizes would hurt our other industries.

Yet you said today that you didn't think it would have an effect. I'm just wondering if you could clarify that, please.

● (1200)

**Mr. Hans Buchler:** Well, I wouldn't say that it will have no effect, but I think the effect will not be all that enormous in the wine sector. The consumer is primarily still looking for the 750-millilitre bottle of wine. I think for the near future this will probably still be the standard, even if you open up the packaging sizes to be larger.

I think one of the concerns is that there will be an opening for 10-litre and maybe even 20-litre containers. In that case, then, you are almost entering the bulk wine market. That would be a bit of a concern, because price-wise that would be very, very competitive in the marketplace. That could become an issue, but otherwise....

And I'm not sure whether this would actually be considered. I think in the U.S. you can buy up to approximately 10-litre containers. I'm not sure whether anything bigger is on the market yet. But if you completely open this up, then of course....

I mean, who is to say that you can't all of a sudden ship a 50-litre container of wine? I'm not saying this is going to happen, but I would be concerned about it.

**Mr. Alex Atamanenko:** I don't have much time, so I'm going to stop you.

I'd like to talk a little about Summerland. You mentioned the importance of the role that the Summerland research institute plays. I'm wondering what the feeling is on the ground. I know that in the past I've talked to folks in the cherry industry, and others, who have said that people are retiring and not being replaced. Is the feeling good on the ground? Do we need more scientists? Are there positions open? Is the institute able to service your needs adequately?

**Mr. Hans Buchler:** There certainly are positions open, and there are positions that have been abandoned through attrition.

Summerland has been advocating filling the position of plant physiologist for almost six years, and it appears that there may be some movement on that front. There is still a huge concern that there seems to be a bit of a direction—I'm not sure if it's a plan or whether it's simply happening by happenstance—toward abandoning support for federally funded research. That would very seriously concern us. That would have a huge impact, not only on the grape sector but on all the other fruit and berry sectors in B.C. as well.

I would expect that the same would hold true across the country. You see a lot of federally funded research stations that have closed recently.

**Mr. Alex Atamanenko:** Thank you.

Once again referring to what Mr. Paszkowski said last time regarding the current tax on Canadian content in blended wines, the vintners' institute would like the tax to be repealed. The Canadian content of blended wines wouldn't be taxed, as it currently is, to fall in line with the VQA. I'm wondering what your feelings as a grower are on that.

**Mr. Hans Buchler:** As I mentioned, the situation in B.C. is a little bit different. There is very little B.C. juice going into a "Cellared in Canada" wine. There is the odd one that is being blended, but I think it wouldn't really be possible for B.C. growers to produce for that market segment, simply because of price issues. The products or grapes cellared in Canada are usually bought at the value of about \$350. It's shipped here in a form of wine or must. It comes from countries where \$350 per tonne is probably quite typical. The average price for grapes in B.C. is around \$2,000 per tonne.

You can see the price differential there makes it almost impossible for us to service that segment, even in the long run with better procedures and higher yields. There is a link between yield and quality that is a huge barrier in this regard. Before 1989 with hybrids, we used to produce about 10 tonnes to the acre, and now it's down to 3.5 tonnes to the acre. In the end, the grower still needs to make money, so I don't see this making any huge changes for B.C.

I don't foresee a big growth in that market segment, because of price issues.

• (1205)

**The Chair:** Thank you.

Mr. Payne, on a point of order.

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

I needed to correct a statement made by Mr. Smith. There is actually sugar grown in Canada, in my riding. There is a sugar manufacturing facility in that same community of Taber. There is Canadian sugar available right across the board if they want to buy it.

Thank you, Chair.

**The Chair:** That's not a point of order.

I'm going to recognize Mr. Richards.

**Mr. Blake Richards (Wild Rose, CPC):** I have several questions, mostly for you, Mr. Buchler.

There has also been some discussion today of Growing Forward 2 and the change and shift toward a greater focus on research and development. I think those who really see the future of the business realize how important that is. I certainly got a sense from your opening remarks that you understand the importance of innovation and research and development.

I know that one of the projects that's been funded—I think it was last year that we gave your group about \$2.1 million under developing innovative agri-products initiative—was looking specifically at addressing some of the challenges you face. I think it was looking at a mapping initiative to help growers better understand the various soil and other conditions that are at play in the vineyards.

Could you tell me a bit more about that project and how it has been helpful to the industry? Could you also comment on your feelings about the shift toward innovation and research and development, and whether you feel it's helpful to those in your group, and why?

**Mr. Hans Buchler:** Specifically, thanks to that mapping project, we have divided the Okanagan in a number of different regions that are linked, to some degree, to climate parameters to some degree, but also soil parameters. In the long run this will help the industry to make better informed choices on what to grow where profitably, and at the same time to be able to achieve optimum quality parameters.

The project is also linked to irrigation practices. That aspect is really critical in our area. I mentioned that the availability of water is limited, but the application of water in our semi-arid climate is also a tool for impacting the quality of the end product. The mapping, especially in regard to soils but also temperature parameters, has really assisted us in making well-informed decisions on how to time irrigation, for one thing, but also on how much irrigation to apply. The idea is really to keep the grape plant always under a little bit of moderate stress—not too much stress and not too little stress—so it will actually mature earlier and produce more flavour and aroma compounds.

There are other projects under the DIAP that we have done, in which we're specifically looking at irrigation. The mapping project is

a basis for research that all other research can then use to be able to classify specific vineyards where we are doing research.

By the way, most of the research we do is actually done in commercial vineyards. Very little research is done on site in Summerland in their own vineyards. They do have a small vineyard for research purposes but primarily for testing product that is not allowed to be used in a commercial situation.

• (1210)

**Mr. Blake Richards:** Listening to your response, I heard you talk about projects like that one and others that look at innovation as a way to create a more profitable industry. I think it would then be safe for me to say that you generally support the idea of a focus in regard to funding of innovation and research and development as a way to create a more profitable industry. Would that be a correct characterization of the comments you've made?

**Mr. Hans Buchler:** Yes, but I would guess that the focus might be different between different crops.

The wine and grape sector has made a very conscious decision to move towards quality, and I think it is working for us. It might also work for other sectors, but I'm not quite sure and would not presume to give any advice to any of the other producing commodities.

**Mr. Blake Richards:** I appreciate your comments. Thank you very much for that.

**The Chair:** Thank you. I have to stop you there. I'm sorry.

The final round goes to Madame Brosseau.

**Ms. Ruth Ellen Brosseau (Berthier—Maskinongé, NDP):** Thank you, Chair.

I'd like to thank both of our witnesses.

Hans Buchler, I just have a few questions for you, because we've had some witnesses come in and we know that Canadian wine represents only 30% of the marketplace, and the remaining 70% is imported.

Do you think the federal government has a role to play, not just in the wine industry but maybe also with an overall long term buy Canadian, buy local vision?

**Mr. Hans Buchler:** Oh yes, very much so.

Within the province of B.C. we are reviving the buy B.C. program. Trying to build consumer loyalty at the national level is a very good idea.

I think this is really our chance to secure a long-term market. If you have consumer loyalty, be it within your region, your province, or your country, you have a fairly secure outlet for your product. If you depend very much on your export market, you are very dependent on market fluctuations and competing influences from other large producers.

So I would very much encourage the federal government to develop a very strong campaign to convince consumers to really look for a domestic product first.

**Ms. Ruth Ellen Brosseau:** I know there are a lot of provincial initiatives—buy local, buy from Quebec, buy B.C.—but I think the federal government does need to have a long-term vision and a food strategy, because that would also ensure that we're keeping employment, that we're producing and processing our own food, which in will lead to job creation. We'd also not be dependent on imports.

As you were saying, we're at the mercy of what happens in other countries. Maybe they have climate change and it's dry and they don't produce as much, so they're going to say no and they won't export what we need. It's like a domino effect.

I just want to touch on ice wines. Is there a lot of ice wine production in B.C.?

**Mr. Hans Buchler:** There was some ice wine production, I think, this past year. I think some 600 tonnes of grapes approximately—don't quote me on this—were processed into ice wine. It is maybe a little bit of a smaller segment than in Ontario. There are some years where the climate just does not allow you to harvest ice wine before the end of January or early February. If you have to keep your grapes hanging that long, you are losing a lot of product.

**Ms. Ruth Ellen Brosseau:** That is keeping—

**Mr. Hans Buchler:** I know that some are still doing it to try to remain in the market. I'm not quite sure that it is a very profitable segment in B.C.

**Ms. Ruth Ellen Brosseau:** Mr. Smith, I was just wondering if I could talk to you about a food strategy, too. Do you think the federal government has a role to play in maybe encouraging Canadians to buy locally, to buy Canadian products? What do you think of that kind of initiative?

• (1215)

**Mr. Arthur Smith:** I think that's an important initiative. I think there's an even stronger one, and that would be to encourage people to purchase and change their diet and eat healthier. There's a huge epidemic of obesity out there. We know that. We see it in young children. If we don't want to look at anything else, just look at the cost. Canada can't afford it.

Getting away from the monetary issue, it's a better lifestyle as a result. Kids are healthier and so on. I think we need to put as much effort there as we possibly can. You know what? The buy local will go up with that.

**Ms. Ruth Ellen Brosseau:** Yes, absolutely.

Do I have any more time?

**The Chair:** Five seconds.

**Ms. Ruth Ellen Brosseau:** Is there anything else you'd like to add? No? Or in general?

**Mr. Arthur Smith:** Not on that. I agree with Hans on “Cellared in Canada”. There are a lot of people who would like to get rid of that category. We can't afford to get rid of the category; my comments were with regard to the labelling of it. We have good years and we have not so good years. I think the tragedy—and “tragedy” is a strong word—is in trying to affix some kind of allowable percentage to it. I think that's where the problem is. We have good years, and I'd like to see Canadian grapes, Canadian wine, be picked up first. But you have years when you absolutely need to do blending or you will lose the market. It's a complicated issue.

**The Chair:** Thank you.

I think the other important part is that regrettably, every time you say “healthy”, you have to go out and prove it to everybody. Even though we know that fresh produce, fresh vegetables, fresh fruits are good for us, the minute you tag “healthy” to it, a million people line up to make you prove it and it becomes too burdensome.

Mr. Payne, on another point of order.

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

I just wanted to say that Mr. Valeriot's tie is about the same colour as the sugar beets growing in southeast Alberta.

**Voices:** Oh, oh!

**The Chair:** Well, with that, I'll thank our guests for being here today. We appreciate your input and I'm sure you'll see some of the comments reflected in our final report. Thank you very much.

We're going to take just a one-minute recess while we go in camera. Anyone who is not directly related to that discussion, I'd ask to leave the room.

We'll suspend.

*[Proceedings continue in camera]*





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