



**HOUSE OF COMMONS
CANADA**

COMPETITIVENESS OF CANADIAN AGRICULTURE

Report of the Standing Committee on Agriculture and Agri-Food

**Larry Miller, MP
Chair**

MAY 2010

40th PARLIAMENT, 3rd SESSION

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Agriculture and Agri-Food**

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THE STANDING COMMITTEE ON AGRICULTURE AND AGRI-FOOD

has the honour to present its

THIRD REPORT

Pursuant to its mandate under Standing Order 108(2), the Committee has studied the Competitiveness of Canadian Agriculture and has agreed to report the following:

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INTRODUCTION

At the global level, competitiveness can be defined as the ability of a nation to achieve productivity gains that can sustain a rising standard of living in a complex world economy. More specifically, from an industry standpoint, it refers to the ability of a firm to produce and sell products that allows it to gain market share while providing an adequate return to the resources employed in the production process. This embodies well the dual objective that guided the Standing Committee on Agriculture and Agri-Food (hereinafter called the Committee) through this study; this objective could be phrased as follows:

To improve the competitiveness of the Canadian agriculture and agri-food sector while protecting and enhancing return to farmers.

Measures and recommendations proposed in this report are therefore all related, directly or indirectly, with the dual objective of improving competitiveness of the Canadian agriculture and agri-food sector while protecting and enhancing farmers' return. The Committee believes that this study is of particular importance at this juncture: while Canada is generally losing market share,¹ the Committee remains convinced that, because of its unique combination of natural resources, knowledge and people, Canada has the core strengths to be at the leading edge of world competitiveness in the agriculture and agri-food sector. The question is what measures or policies should be adopted or changed to achieve this world leading position.

To properly address this question, this report is separated into four sections. The first section explores ways of increasing export opportunities for Canadian farmers and processors. The second section assesses how to improve the level of competitiveness in some key subsectors of the agri-food supply chain. The third section examines how funding for research could be used to enhance the competitiveness of the agri-food sector in the medium term. Finally, the fourth section evaluates how some aspects of the Canadian regulatory framework could be modified to lead to an improvement in the competitive landscape without compromising in any way on safety or security standards.

This report is based on the public hearings held by the Committee between February and October 2009. The Committee heard from producers' groups representing the different industries constituting the Canadian agricultural sector as well as witnesses from agricultural input suppliers, service providers, processing industries and governments.

1 Larry Martin, Senior Fellow, George Morris Centre, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 20 – 1145, 2nd Session, 40th Parliament, Ottawa, May 12, 2009.

1. DEVELOPMENT OF NEW MARKETS

Developing new markets can help improve the competitiveness of Canada's agriculture and agri-food sector in a number of ways, but there are also obstacles to maintaining or enhancing access to certain markets for Canadian products.

(A) Expanding access to foreign markets

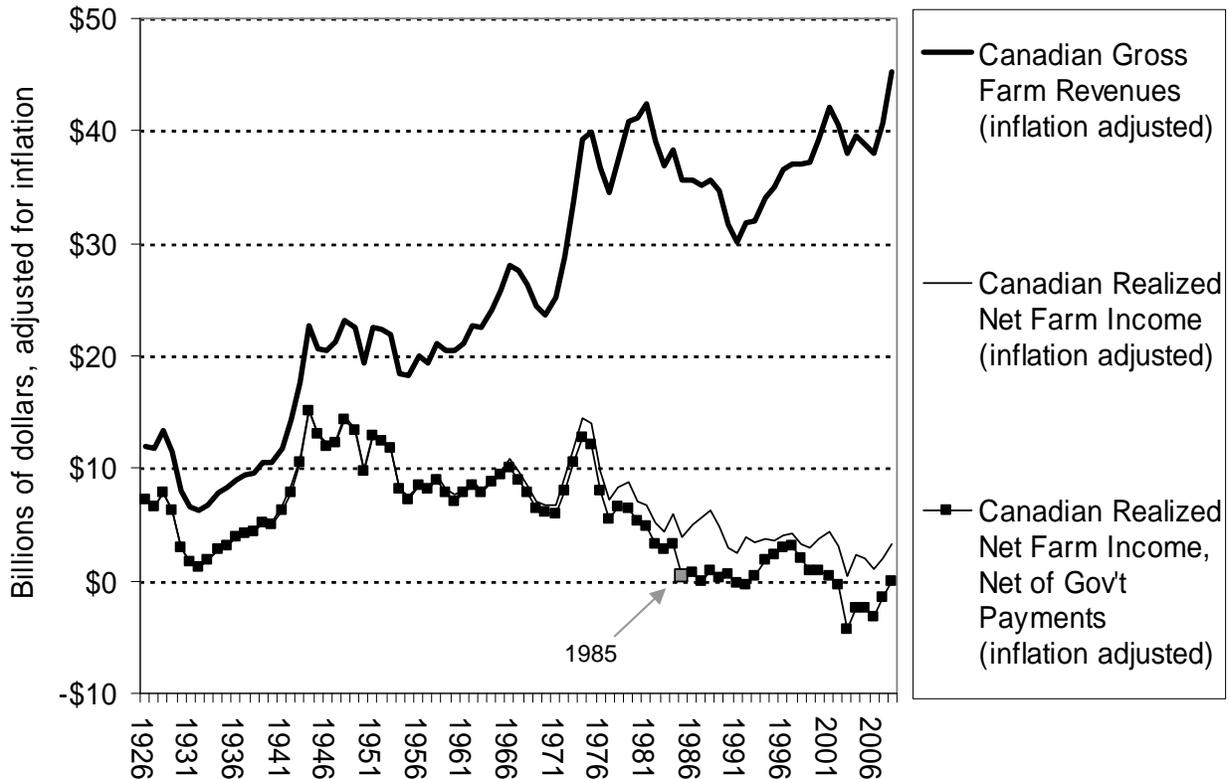
Canada is the world's fourth-largest exporter of food products behind Europe, the United States and Brazil, which means that international trade is vital to the profitability of Canadian farmers and Canada's agri-food sector. There was a very strong consensus among the witnesses who appeared before the Committee on the view that expanding access to foreign markets is key to improving the competitiveness of Canadian farmers and Canada's agri-food sector. That link is attributable to two main factors. First, new markets may prove more profitable for Canadian farmers and thus may improve their financial situation. Second, expanding market access is beneficial to the entire value chain in the agri-food sector since higher sales volumes often generate substantial economies of scale. Those economies of scale may in turn strengthen Canada's competitive position on international markets. The importance of trade for Canadian agriculture was well illustrated by the Canadian Agri-Food Trade Alliance:

Trade matters, and it matters to farmers. Almost 80% of total farm cash receipts come from export-dependent commodities. [...] We have built an industry that relies on trade. Without it, our agriculture and food production sectors would contract significantly. We need international markets, and we need a transparent and fair set of rules to govern our trading activities.²

Notwithstanding the increase in market access, the National Farmers Union (NFU) provided an analysis of farm income, using data from Statistics Canada, which indicates that despite dramatic increases in market access, Canadian farmers have only been able to capture a net of \$3 billion of the \$802 billion worth of farmers products sold into the marketplace since 1985 while agribusiness corporations were able to capture the other \$799 billion. According to the NFU, these numbers suggest that increasing market access alone, without curbing the ability of the globally dominant agribusiness corporations to be the primary beneficiaries of the wealth produced by Canadian farmers, may not be effective in achieving the goal of enhancing and protecting farmers' income.

² Darcy Davis, President, Canadian Agri-Food Trade Alliance, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 10 – 1110, 2nd Session, 40th Parliament, Ottawa, March 24, 2009.

Figure 1: Canadian Gross Revenue and Net Income: 1926-2008³



Sources: Stats. Can. "Farm Cash Receipts," Cat. No. 21-011-X; Stats. Can. "Net Farm Income," Cat. No. 21-101-X; Stats. Can. "Direct Payments to Agricultural Producers," Cat. No. 21-015-X; Stats. Can. "Agricultural Economic Statistics," Cat. No. 21-603-E; and Stats. Can. "Consumer Price Index."

Enhancing market access is critical for all export-oriented sectors of Canadian agriculture. The representatives of those sectors expressed very strong support for the establishment of the Market Access Secretariat by Agriculture and Agri-Food Canada (AAFC). Details of how the Secretariat would operate are not yet known. The Committee notes, however, that access can be expanded either by negotiating multilateral agreements (the World Trade Organization, for example) and bilateral agreements (the Canada-Europe free trade agreement) or by lowering non-tariff trade barriers (such as sanitary and phytosanitary regulations). From a strategic standpoint, the Committee is of the opinion that both options should be pursued by the Canadian government. Moreover, without supporting all aspects of free trade agreements, the Committee wishes to express its support for free trade talks to the extent that they will generate more farm income and protect Canadian agricultural institutions including the supply managed sectors and the Canadian Wheat Board. With regard to the specific role of the Market Access Secretariat, a number of witnesses mentioned that it should focus on resolving the non-tariff barriers that foreign countries have erected against Canadian products:

3 National Farmers Union, Brief to the Standing Committee on Agriculture and Agri-Food, No. 26, 2nd Session, 40th Parliament, Ottawa, June 11, 2009.

I'd like to echo JoAnne's comments in terms of support for the secretariat that was set up. I think it's an excellent way to bring the resources of various departments and agencies of government, together with the industry, to sit down and work through some solutions. In our industry, we've had problems for a number of years with pulse trade into India. That's really getting into the phytosanitary area. One of the comments Pulse Canada has made in the past is that a lot of the discussions with WTO are related to tax tariffs. Many of our trade problems are actually related to phytosanitary issues. It's a difficult issue at an international level for people to want to open up, but that seems to be the area where we run into most of our problems. From a trade perspective, I think the secretariat will be the way to address some of these issues, such as phytosanitary problems, by bringing together a food inspection agency, international trade people, agriculture, and the expertise of the industry as well.⁴

Technical barriers to trade are becoming more substantial roadblocks in the international marketplace. We agree that governments and industry in Canada need to improve their capability in this area.⁵

I think it's something that has to go ahead aggressively. Taking a look at the technical barriers to trade and finding out how we can remove some of those technical barriers will be a solution to some of these other problems.⁶

Australia has a permanent avian influenza ban. It has never banned Canadian chicken for avian influenza because it has a ban that says you have to cook it until it's essentially pet food before it can get on that island, because it's so pristine, therefore nobody exports chicken to Australia. So it's those types of things under the guise of other matters. Frankly, the market access secretariat has to play its role by going out and vetting those ones where we're getting blocked by illegitimate freezes.⁷

The Committee believes that the Market Access Secretariat should in fact resolve or eliminate non-tariff trade barriers. Therefore,

Recommendation 1.1:

The Committee recommends that the Minister of Agriculture and Agri-Food ensures that the Market Access Secretariat continues its effort to resolve technical non-tariff barriers erected by foreign jurisdictions against Canadian products.

Resolving non-tariff trade barriers is obviously not a simple proposition, since they are often imposed for political reasons more than anything else. Nevertheless, it is worth the effort for Canadian producers, because greater market openness may enhance the

4 Gordon Bacon, Chief Executive Officer, Pulse Canada, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 12 – 1220, 2nd Session, 40th Parliament, Ottawa, March 31, 2009.

5 JoAnne Buth, President, Canola Council of Canada, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 12 – 1115, 2nd Session, 40th Parliament, Ottawa, March 31, 2009.

6 Ron Bonnett, First Vice-President, Canadian Federation of Agriculture, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 9 – 1145, 2nd Session, 40th Parliament, Ottawa, March 12, 2009.

7 Mike Dungate, Chicken Farmers of Canada, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 14 – 1145, 2nd Session, 40th Parliament, Ottawa, April 21, 2009.

value of livestock produced in Canada. As the Committee was told, some meat processing by-products have little value in Canada but very high value on some international markets. Eliminating technical barriers could therefore increase the value of livestock produced in Canada. Some witnesses even suggested that it could boost returns by \$80 to \$100 a head. In the Committee's view, that is a very attractive idea, since it would generate more revenue with little or no impact on production costs, which would automatically translate into higher profitability for Canadian producers. Therefore,

Recommendation 1.2:

The Committee recommends that the Market Access Secretariat pursue a strategy of enhancing the value of all animal and plant products to maximize the benefits of improved access for Canadian products.

A number of witnesses also mentioned that a Canadian traceability system, in particular a livestock age verification system, might be an excellent tool for resolving some non-tariff trade barriers. Japan is the best example of this, since it requires that beef imported into the country come from animals under 21 months of age. A livestock age verification system is therefore the only way for Canadian producers to gain access to the Japanese market:

Age verification is a tool that is particularly useful right now for the market in Japan, where imports of beef are restricted for animals under 21 months of age. There is no reasonable physiological measurement to identify these animals once they're already a carcass, so age verification becomes the tool. We are expecting to see a surge of exports to Japan in 2009 because of the increased numbers of cattle being age verified in Alberta—bleeding off, as a result, into Saskatchewan, B.C., and Manitoba as well.⁸

The Committee notes that in July 2009 the federal government announced the introduction, as part of the Agricultural Flexibility Fund, of the Livestock Traceability Initiative for Canadian Farmers and Consumers. It is however not clear whether a mandatory national age verification system will be part of the initiative in the short term. The Committee notes that introducing such a system would constitute a major step towards establishing a national traceability system and would make it possible to position Canadian beef more favourably on international markets. Therefore,

Recommendation 1.3:

The Committee recommends that Agriculture and Agri-Food Canada develop as promptly as possible a national strategy aimed at establishing an age verification system, in order to harmonize the various provincial systems without weakening those already in place,

⁸ Ted Haney, President, Canada Beef Export Federation, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 8 – 1210, 2nd Session, 40th Parliament, Ottawa, March 10, 2009.

and put Canadian agri-food products in a better position to access foreign markets, and that this cost not be borne exclusively by farmers.

South Korea continues to ban imports of Canadian beef, which is a major irritant for representatives of the Canadian beef industry. The consequences of that ban are not confined to the South Korean market, as packers in the United States refuse to buy Canadian cattle so that they can maintain their access to that market:

There are other issues. For instance, a number of plants in the U.S. don't process Canadian cattle because we're not open to Korea. They'll start processing once we open to Korea, but right now the Koreans won't allow any Canadian product in those packing plants. So again, that directly impacts on our price and on what we refer to as the basis.⁹

It is difficult to understand this import restriction because there is no scientific justification at all for maintaining it. Moreover, Canada imports many types of products from South Korea, including automobiles. The obvious question is, who has the most to lose in a trade dispute? The Committee believes that this situation cannot continue, and that it is time to give up on "amicable diplomacy." The Committee notes that Canada has already decided to bring the ban before the WTO, and the WTO has agreed to establish a special group to rule on it. Therefore,

Recommendation 1.4:

The Committee recommends that the Government of Canada create in advance a list of South Korean goods that would be subject to retaliatory trade measures if the WTO special group rules in favour of Canada in this matter. The goods should be targeted in such a way as to maximize the economic consequences for South Korea.

The concept of market access is often associated with agricultural products because they tend to be the object of protectionist measures. Yet there are also protectionist measures against industrial goods that may have an impact on the competitiveness of Canadian manufacturers associated with the agricultural sector. Russia in particular is exhibiting growing protectionist tendencies with regard to imports of agricultural machinery. It should be noted that this is taking place in the context of Russia's efforts to join the WTO. Therefore,

⁹ Dennis Laycraft, Executive Vice-President, Canadian Cattlemen's Association, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 5 – 1125, 2nd Session, 40th Parliament, Ottawa, February 26, 2009.

Recommendation 1.5:

The Committee recommends that the Minister of International Trade convey to Russia his strong disapproval of the protectionist measures that it has taken to reduce imports of agricultural machinery.

(B) COOL

Expanding market access is quite a challenge, but maintaining that access can be just as daunting. The regulation requiring country-of-origin labelling (commonly known as COOL) on products in the United States is a case in point.

The COOL Final Rule was published in January 2009 and went into effect on March 16, 2009. It relaxed certain requirements and allowed products derived from livestock imported from Canada for immediate slaughter and livestock born in Canada, but raised and slaughtered in the United States to be labelled “Product of Canada and the United States” if the animals were mixed at the packing plant with animals born, raised and slaughtered in the United States. Following the publication of the Final Rule, Canada decided to suspend its consultations request to the WTO pending the response of American packers and enforcement of the regulation.

Nevertheless, the Committee is convinced that no country should be able to get away so easily with passing laws that flout trade agreements and its own international commitments. Canada should have retaliatory measures available to express its dissatisfaction and make it clear that a trading partner cannot simply ignore trade agreements in its policy-making. The Committee also wishes to point out that while COOL was referred to for a long time as having potentially disastrous consequences, the word “potentially” no longer applies, because the consequences are already disastrous:

The introduction of mandatory country-of-origin labelling in the U.S. has wreaked havoc on a sector already suffering from financial losses. Since 2009, exports of live hogs are down 40% compared with the same period last year. This breaks down as follows: 30% fewer Canadian weaner and feeder hogs going into the U.S. and 65% fewer Canadian market hogs being exported to the U.S. On an annual basis, this represents a loss of about \$250 million worth of exports.¹⁰

As is often the case, what lies behind these broad statistics are disturbing individual stories:

This introduction of the COOL has really kicked us in the teeth. We had a long-term contract with the plant we used to sell to, and at some point they just came and said, “Sorry, guys, we’re just not killing Canadian hogs anymore.” We had to go with our hat in

10 Jurgen Preugschas, Chair, Canadian Pork Council, Standing Committee on Agriculture and Agri-Food, *Evidence*, No 22 – 1200, 2nd Session, 40th Parliament, Ottawa, May 26, 2009.

our hand to another plant, negotiate a deal with somewhat poorer returns on a per hog basis, and move to a different location.¹¹

On February 20, 2009, U.S. Secretary of Agriculture Thomas J. Vilsack announced that even though the original Final Rule applied and would go into effect as planned on March 16, he expected industry leaders to comply voluntarily with the additional labelling practices. For example, animals born and raised in Canada and slaughtered in the United States could be labelled “Born and raised in Canada and slaughtered in the United States”, and animals born in Canada but raised and slaughtered in the United States could be labelled “Born in Canada and raised and slaughtered in the United States.” In fact, those requirements had been set out originally in the 2002 *Farm Bill*, but many American leaders who wanted more practical rules had described them as excessive. The Secretary of Agriculture also recommended broadening the definition of processed food products to include cured, smoked, broiled, grilled and steamed meat, which is not subject to COOL at the moment. Compliance is voluntary and therefore not legally binding, and yet there is an implied threat of legal action if the labelling is considered inadequate, as indicated in the February 20, 2009, letter from the U.S. Department of Agriculture (USDA) to industry representatives:

The Department of Agriculture will be closely reviewing industry compliance with the regulation and its performance in relation to these suggestions for voluntary action. Depending on this performance, I will carefully consider whether modifications to the rule will be necessary to achieve the intent of Congress.¹²

Canada subsequently asked the WTO for further consultations with the United States on COOL. Those consultations were held in the summer of 2009 and produced no results. As a result, in October 2009, Canada called for the establishment of a special group to decide whether COOL is compatible with WTO rules.

Some witnesses who appeared before the Committee were generally of the opinion that the WTO processes should be used as a last resort and only to settle this dispute, since the process is always lengthy and the results uncertain.

The Committee travelled to Washington on June 4 and 5, 2009, to meet with representatives of Congress, the U.S. Administration and the industry. There is every indication that COOL is here to stay and that a WTO complaint is the only possible way of changing the situation. Congress is also considering the possibility of extending the rule to cover all processed products through a bill on food safety, while all the industry representatives made it clear that the rule is a marketing tool and not a means of keeping the food supply safe.

11 Stephen Moffett, Director, Canadian Pork Council, Standing Committee on Agriculture and Agri-Food, *Evidence*, No 22 – 1240, 2nd Session, 40th Parliament, Ottawa, May 26, 2009.

12 The letter is available on the USDA Web site: <http://www.ams.usda.gov/AMSV1.0/getfile?dDocName=STELPRDC5075457>.

At the meetings in Washington, Committee members pointed out that such a measure has consequences that go far beyond the red meat industry. It sets a precedent for other countries: when they see the United States using that type of non-tariff barrier, they may decide to do likewise and impede international trade. The Committee remains convinced that COOL in the United States is nothing less than a non-tariff trade barrier whose sole purpose is to hinder Canadian exports.

Committee members also pointed out the integrated nature of the North American red meat market and COOL's negative consequences for the industry on both sides of the border. For many Congressional representatives, those consequences are poorly understood in general, and Committee members stressed the need to consider them carefully. Members also learned that the USDA will complete its inspections of COOL's implementation by November 2009. Therefore,

Recommendation 1.6:

The Committee recommends that the government assess COOL's impact on the North American red meat industry, and in particular that it gather evidence to determine whether companies that would normally have bought Canadian products are actually still buying beef and pork in compliance with the voluntary requirements and the Final Rule.

(C) Production sector

Improving the agri-food sector's competitiveness would be in vain if it is not accompanied by adequate profitability for agricultural producers. From that perspective, the Committee finds the financial situation of cattle and hog farms troubling. Hog producers have asked the Minister of Agriculture and Agri-Food for emergency assistance to help them weather this unprecedented crisis. Some producers expressed reservations, however, since any emergency assistance could trigger retaliatory measures by our trading partners. Nevertheless, a witness put forward a very interesting idea on this topic:

Assistance should also be provided for the implementation of new technologies that can reduce costs on the farm. This would be a productive form of assistance that would be acceptable under WTO rules. Pork producers are innovative, open-minded people who are ready for change. We are determined to persevere in order to make our farms profitable again and preserve an industry that is of critical importance to Quebec. [...] If you read the report released by the European Union with respect to the use of the green and amber boxes, you can see that there has been a transfer between the amber and the green boxes. The solution is to work with the green boxes. But, what should be in those boxes? Well, that should depend on our standards with respect to the environment,

quality assurance and animal welfare. There is a lot of room for action there and a lot of opportunities for the government to invest and help our farm producers.¹³

The United States and the European Union seem to have developed some expertise in using the subsidies permitted in the “green box” category. There is a very simple reason: this type of subsidy is not subject to any restrictions under WTO rules. For a subsidy to be eligible for the “green box,” it must not have the effect of distorting trade. Thus, the support programs in this category can provide subsidies that are not based on the quantity or type of commodities produced, but rather can be associated with environmental or even competitiveness objectives.

The Committee believes that Canada must make use of the flexibility that the green box gives the WTO to improve the agricultural production sector’s competitiveness while providing assistance to producers during this crisis. In particular, this approach would dovetail nicely with a national livestock age verification strategy. Therefore,

Recommendation 1.7:

The Committee recommends that Agriculture and Agri-Food Canada propose a program to fund farm-level market development initiatives, such as a livestock age verification system for one example, in a way that is fully compatible with the criteria of the WTO’s “green box” category.

The Committee also discussed the issue of “captive supply.” The NFU pointed out that situations in which on-farm livestock is controlled or even owned by packers could seriously distort market prices. For example, in a situation where prices are high and there is surplus production, packers can try to slow down their supply from independent livestock producers and favour supplies from integrated producers, which would artificially lower the market price. The reverse would be true in cases where market prices are seriously depressed. The NFU proposed the following solution for eliminating captive supply:

Our number one recommendation is to ban packer ownership and control of cattle. Putting a high proportion of cattle through open and independent auctions creates significant benefits: increased bidding intensity; transparent price discovery; enhanced access for small farmers and independent feeders to important markets; opportunities for small processors to buy fed cattle; and protection from packer retaliation.¹⁴

One witness noted, however, that the issue of vertical integration and, more broadly, the competitiveness of smaller packers is much more complex than some people would have us believe:

13 Jean-Guy Vincent, President, Fédération des producteurs de porcs du Québec, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 9 – 1115 and 1230, 2nd Session, 40th Parliament, Ottawa, March 12, 2009.

14 Grant Robertson, Board Member, National Farmers Union, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 6 – 1120, 2nd Session, 40th Parliament, Ottawa, March 3, 2009.

This is a much more complex issue than just saying vertical integration is bad, Cargill is bad, or Tyson is bad. The truth is that a lot of the smaller companies couldn't make a go of it, and that's why they sold or just shut down. Burns moved out of Alberta a number of years ago because the labour unions wanted more wages. Burns was already operating on a razor-thin margin. They just shut down. I don't think there's a quick or easy answer.

Regional packing plants are not easy to establish. They require large amounts of water. They require large amounts of cattle to be run through them to make money. Rancher's Beef had no end of problems just trying to get started, but we helped them because we were trying to help the farmers in our province sell their product.

There is not one simple answer, sir. I wish there were.¹⁵

The effect that captive supply could have on market prices remains a matter of debate among witnesses that appeared before the Committee. Some witnesses questioned whether a market can really be described as "free" if a significant proportion of the buyers and sellers are controlled by the same entity. For others, it is unclear how one could justify government intervention that would go so far as to prohibit a particular entity from owning and controlling cattle. Consideration would also have to be given to the impact that such a ban might have on packers owned by groups of farmers. Therefore,

Recommendation 1.8:

The Committee recommends that the federal government undertake immediately a study of the impact that captive supply has on live animal prices in the Canadian beef sector. The results of the study shall be presented before the Committee by representatives of the Department by the first of October 2010.

(D) Processing sector

The high proportion of live animals exported to the United States seriously undermines the Canadian beef industry's competitiveness, since any restrictions on live animal imports from Canada can generate a surplus of animals on the domestic market and cause domestic prices to collapse. Moreover, the high level of concentration in the Canadian packing industry can exacerbate the situation, as shown by the market's behaviour during the bovine spongiform encephalopathy (BSE) crisis.

The federal government has announced in 2009 that \$50 million will be invested over the next three years to strengthen packing capacity in Canada. Although a number of witnesses expressed opinions on how that money should be spent, the consensus seemed to be that the funds should be used first and foremost to improve the efficiency of Canada's existing packing infrastructure and to help some companies focus on specialized niches:

15 Carol Haley, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 6 – 1245, 2nd Session, 40th Parliament, Ottawa, March 3, 2009.

We're not looking at increased capacity with that \$50 million. We do not support that as an initiative in this country. We have ample capacity. We're looking at efficiencies.¹⁶

Even though the level of concentration in Canada's packing industry is a source of concern, some witnesses pointed out that the government would do well to exercise caution to ensure that the funds were not used to build new plants that would operate in the same markets as the larger players, which could soon make the new operations vulnerable.

It was also noted that portions of the \$50 million could be made available in the form of direct investments and not as repayable loans:

It is in relation to the new federal program announced in the budget by the current government—assistance of \$50 million for the beef slaughtering industry—that we are making our current request. We are very favourable to that program and we fully support it.

However, a program implemented with federal money could only be genuinely supportive if, for example, it provides capital payments, as opposed to business loans, given that businesses in the industry no longer have any borrowing capacity; gives preference primarily to projects supported collectively and directly by producer groups; extends support on a priority basis to companies whose competitiveness has been most affected by the SRM regulations; and, benefits, on a priority basis, those companies that play a critical strategic role in the red meat sector.¹⁷

The Committee members agree with this approach. Therefore,

Recommendation 1.9:

The Committee recommends that the \$50 million earmarked for strengthening packing capacity in Canada be spent:

- **in the form of direct investments and repayable loans;**
- **to improve the efficiency of existing packing infrastructure and help some companies focus on specialized niches.**

An innovative proposal was submitted to the Committee concerning the Canadian Agriculture and Food International (CAFI) Program,¹⁸ which would assist agri-food companies in their efforts to develop domestic markets:

16 Brian Read, Chairman, Beef Committee, Canadian Meat Council, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 8 – 1145, 2nd Session, 40th Parliament, Ottawa, March 10, 2009.

17 Michel Dessureault, Chairman, Fédération des producteurs de bovins du Québec, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 9 – 1140, 2nd Session, 40th Parliament, Ottawa, March 12, 2009.

18 The government replaced CAFI in 2009 with a new program, AgriMarketing, which also aims to improve Canada's agricultural products position on international markets.

Typically, domestic marketing activities have been ineligible for funding support through such programs as CAFI. Beef Information Centre suggests the government consider making domestic marketing initiatives eligible for funding for agricultural sectors in distress.¹⁹

Even though international markets are vital to Canada's agri-food industry, the Committee believes that domestic markets should not be ignored, especially at a time when the trend toward buying local products is gaining momentum. Therefore,

Recommendation 1.10:

The Committee recommends that Agriculture and Agri-Food Canada modify the AgriMarketing Program so that initiatives to grow the domestic market for Canadian products be eligible.

In the same context, there is a strong consensus on the idea of encouraging grain processing in Western Canada, and in particular on the idea of promoting the development of niche products. Some niche markets may be small today, but they have the potential to evolve into important components of the agri-food industry, as illustrated by Dr. Brian Fowler, professor at the University of Saskatchewan :

Quebec-based Première Moisson is one example of the successes that can be achieved in these so-called niche markets. Their research and development efforts include a systematic search of new blends of cultivar and crop management specific quality attributes to better supply ever-expanding markets.²⁰

The Committee notes that the Canadian Wheat Board (CWB) already has the "Field to Plate program" which promotes the production and processing of value-added niche products in the Prairie provinces. The Committee supports the expansion of the program's scope. Therefore,

Recommendation 1.11:

The Committee recommends that the Canadian Wheat Board increase the maximum amounts permitted under the Field to Plate program.

Apart from niche markets, some people maintain that the CWB stands in the way of the emergence of value-added processing and manufacturing businesses in the Prairies, while others believe that it gives farmers some power in the marketplace.

Opponents of the single desk, some of whom have appeared before this Committee, criticized the CWB in the fall of 2007 for not posting values that were as high as the spot prices that our counterparts in the U.S. were getting at the time, somewhere around \$6 to

19 John Gillespie, Chairman, Beef Information Centre, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 8 – 1115, 2nd Session, 40th Parliament, Ottawa, March 10, 2009.

20 Brian Fowler, Professor, Department of Plant Sciences, University of Saskatchewan, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 20 – 1120, 2nd Session, 40th Parliament, Ottawa, May 12, 2009.

\$7 per bushel. Those were historically high levels, and much of the U.S. crop was in fact sold at those prices. Markets were far from peaking, however, and we ended making up sales at over three times those values and returning a price to producers of over \$12 per bushel for every bushel they sold. American durum producers are amazed when they find out that this is the price we got for each and every bushel through the pool.²¹

Mike Bast, Chair of the Western Canadian Wheat Growers Association, told the Committee that Canada is a net importer of pasta, despite being the world's largest producer of durum wheat. Moreover, the United States produces 10 times as much pasta as Canada, even though Canada produces twice as much durum wheat as the United States. This does not mean, however, that no processing is done in the Prairie provinces: in 2008, Western Canada exported five times as much flour to the United States as it imported from that country. Specifically, 61,417 tonnes of flour were exported compared with 11,601 tonnes imported; the five-year average was 54,658 tonnes exported and 7,573 tonnes imported. Similarly, the malting industry has been booming in Western Canada. Malt production capacity in that area has almost tripled in 20 years, and now accounts for more than 75% of Canada's total capacity.

More processing opportunities would improve farmers' competitiveness since transportation costs would make up a smaller proportion of the price if value is added to agricultural commodities.

21 Larry Hill, Chair, Board of Directors, Canadian Wheat Board, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 21 – 1125, 2nd Session, 40th Parliament, Ottawa, May 14, 2009.

2. COMPETITION IN THE AGRI-FOOD SECTOR

All of Canada's efforts to develop new markets or improve agri-food competitiveness would be wasted if there were not some degree of competition between companies supplying agricultural inputs and food processing and distribution companies. This section explores certain aspects of competition in the agri-food sector.

(A) The Competition Bureau and price levels

According to the evidence received by the Committee, the Competition Bureau's modus operandi, especially the use or non-use of price levels to gauge the degree of competition in a given market, has raised questions. For example, in the food distribution industry, there has been a very strong trend toward concentration, with the result that the two largest players now control 75% of the market. According to some witnesses, however, the Competition Bureau often concludes that such concentration can drive down the general level of retail prices, which would tend to show that the level of competition is still acceptable:

The Bureau will not take a look at it, however, under their current philosophical guidelines, which means they're only interested in the end price to the consumer. Despite the fact that the preamble to the Act, which we have here, says the Bureau is going to look at some modicum of protection for small business to maintain stability in the marketplace, they don't act in that regard. So as long as the Bureau is only going to work on the premise of low prices to the consumer, they will not look at this.

[...]

The interpretation of the Bureau as to how it operates is that it's purely on low price to the consumer. We can give you lots of examples of it. For example, a few years ago there were only two wholesalers left in Ontario that as a grocery store I could buy goods from, and the last small one was being purchased by a major. We told the Bureau, if you do that, the result will be that independents can buy only from this major. They said that this will be efficient and it will be good for the consumer.²²

Paradoxically, when questioned about the high price of fertilizers, the Competition Bureau made the following observations:

It is important for this committee to understand that the *Competition Act* isn't a vehicle for price regulation.

[...]

But metering supply to demand or charging the highest price you can obtain from the market can be looked at in a number of different ways. It can be looked at as firms seeking to maximize returns or it can be looked at as some form of inappropriate pricing.

²² John Scott, President, Canadian Federation of Independent Grocers, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 15 – 1155 and 1200, 2nd Session, 40th Parliament, Ottawa, April 23, 2009.

But the *Competition Act* is not a vehicle for price regulation and it doesn't make it unlawful for firms to charge high prices. I say that with all recognition that high prices have a very significant effect on Canadian farmers, and on Canadians generally, whereas, as I mentioned earlier, it's a different situation if those high prices are a result of the contravention of the Act, such as a conspiracy to fix prices or other anti-competitive forms of agreement, an agreement to reduce output, for example.²³

Although it seems premature to conclude that high prices would not be viewed as an indicator of inadequate competition, or conversely that low prices would be regarded as an indicator of acceptable competition, the Committee believes that clarifications are needed. Therefore,

Recommendation 2.1:

The Committee recommends that the Competition Bureau clarify its position regarding the role that price levels play in its assessment of the degree of competition in a given market. The response should be provided in the form of a written report to the Committee.

Recommendation 2.2:

The Committee recommends that Agriculture and Agri-Food Canada in cooperation with the Competition Bureau undertake a study to explore competition issues affecting the agricultural sector in the 21st century and the appropriate role for competition and regulatory enforcement in that sector. The study will address the dynamics of competition in agriculture markets, including, among other issues, buyer power and vertical integration. The study should also include an examination of the impact of agricultural concentration on food costs, the effect of agricultural regulations and statutes or other applicable laws and programs on competition, which relate to patent and intellectual property affecting agricultural marketing or production and market practices such as price spreads, forward contracts, packer ownership of livestock before slaughter, market transparency and increasing retailer concentration.

(B) Competition on the fertilizers market

There were many discussions in the Committee regarding the price of fertilizers. The dominant position of some players in the market is a source of concern to agricultural producers, many of whom believe that prices for fertilizers do not reflect a state of genuine competition.

23 Adam Fanaki, Senior Deputy Commissioner, Mergers Branch, Competition Bureau, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 23 – 1215 and 1220, 2nd Session, 40th Parliament, Ottawa, May 28, 2009.

In view of its size and dominance in the marketplace, PotashCorp (formerly known as Potash Corporation of Saskatchewan) is a good example to use in examining the fertilizers market in the context of the *Competition Act*. The potash market in particular is very heavily concentrated, PotashCorp being by far the world's largest producer of that type of fertilizer. Moreover, PotashCorp admits more or less openly that it limits production to keep market prices for potash at a certain level:

And you get some reports from the retail market that [...] potash producers are out to lunch because they've maintained their pricing and look what a great deal phosphate and nitrogen have been, and then you look at the numbers and you see that the reduction in nitrogen and phosphate is also substantial and yet the prices for those were dropped precipitously. So the price drop did not increase demand for those products. It only destroyed value for those companies that are producing those products.

So we think, once again, it's been proven that dropping the price does not increase demand for fertilizer products. Fertilizer's not like shoes, as I've talked to you before. If you have a half price sale, people might buy two pairs of shoes. But if you have a high half price sale for phosphate or nitrogen, they're only going to buy that same tonne of nitrogen or phosphate. It just doesn't work any different and you would think that people would start to understand that after years and years of being in this business.

William J. Doyle, President and CEO, PotashCorp
(quote taken from PotashCorp 2009 first quarter
conference call transcript, April 23, 2009,

[http://www.potashcorp.com/investor_relations/financial_performance/
quarterly_results/conference_call/?year=2009&quarter=Q1](http://www.potashcorp.com/investor_relations/financial_performance/quarterly_results/conference_call/?year=2009&quarter=Q1))

It is interesting to note that commodity prices dropped sharply in late 2008 and early 2009, but that the decline does not seem to have affected potash to the same degree. Table 1 shows the fertilizers production levels and prices generated by PotashCorp in the first half of 2009.

Table 1. Selected Data on PotashCorp's Fertilizers Production and Prices in the First Half of 2009 (Prices are in U.S. Dollars)

		Six Months Ended June 30		
		2009	2008	Change
Potash	Production (KCl Tonnes - thousands)	1,666	4,887	-66%
	Potash Average Price per MT:			
	North America	\$601.75	\$355.12	69%
	Offshore	\$447.19	\$347.56	29%
Phosphate	Production (P2O5 Tonnes - thousands)	613	1,037	-41%
	Phosphate Average Price per MT:			
	Fertilizer - Liquid phosphates	\$320.94	\$498.44	-36%
	Fertilizer - Solid phosphates	\$318.29	\$834.31	-62%
Nitrogen	Production (N Tonnes - thousands)	1,280	1,422	-10%
	Nitrogen Fertilizer average price per MT:	\$252.62	\$420.44	-40%

Source: PotashCorp, second quarter 2009 data (http://www.potashcorp.com/investor_relations/financial_performance/quarterly_results/financial_statement/?year=2009&quarter=Q1 http://www.potashcorp.com/investor_relations/financial_performance/quarterly_results/financial_statement/?year=2009&quarter=Q2).

The Committee notes that potash price exhibits a substantial increase in the first part of 2009, while phosphate and nitrogen prices exhibit an important decrease. In light of these data, PotashCorp appears to have had some success in its drive to lower production and keep potash prices at an acceptable level for its shareholders. Regarding high potash price, the Competition Bureau offered the following comment in front of the Committee:

I think the only response I can really give you on that issue is that I understand the concern with respect to high prices. We're not debating each other on these issues at all. I'm really trying to lay out for you what the vehicle is under the Act, what the scope of the Act is, and what provisions could be potentially applicable to that conduct. I don't want to reiterate the point again. High prices in and of themselves are not conduct that is unlawful under the Act, but if those high prices are the result of some form of contravention of the Act, then we are empowered to take action.²⁴

These statements imply that high prices might indicate that provisions of the *Competition Act* have been violated to the extent that they were brought about by activities that are contrary to the Act. Activities such as collusion between competitors to keep prices at a certain level or lower production to a certain level are the type of activities that would contravene the Act. On the other hand, a company in a dominant position that

24 Adam Fanaki, Senior Deputy Commissioner, Mergers Branch, Competition Bureau, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 23 – 1220, 2nd Session, 40th Parliament, Ottawa, May 28, 2009.

decides to cut production is not necessarily in violation of the Act. The Committee believes, however, that making a distinction between those two situations is somewhat artificial in that the impact on market prices may be exactly the same. For example, if four companies that each control 10% of the market collude to lower production and thereby keep market prices unchanged or drive them up, such an arrangement would be considered unlawful. In contrast, if a single company that controls 40% of the market decides to cut production in order to maintain or push up market prices, such an approach would not necessarily be deemed illegal under the *Competition Act*. Yet the effect on the market price would be identical.

Even though the *Competition Act* seems to make a distinction between the two situations, the Standing Committee is of the opinion that for farmers, it amounts to the same thing since potash prices remain artificially high. In this connection, the Committee has already adopted a motion asking the Competition Bureau to study the Canadian fertilizer industry's pricing and marketing practices. Therefore,

Recommendation 2.3:

The Committee recommends that the Competition Bureau, as part of its study of the fertilizer industry's pricing and marketing practices, thoroughly examine the level of competition that led to the potash prices observed in the first half of 2009.

More generally, the Canadian Association of Agri-Retailers (CAAR) told the Committee that a number of small independent retailers of agricultural inputs have decided to sell out to larger competitors. In the Prairie provinces, corporations Viterra and Agrium Inc. recently acquired several independent fertilizer retailers. These acquisitions would seem to indicate increasing control of the fertilizer market in Western Canada by a small number of corporations, which could soon control both manufacturing and retailing in the agriculture sector.

The Prince Edward Island Potato Board described a similar situation in the Atlantic provinces, where the main buyers of agricultural products are also sellers of agricultural inputs. Given the restricted number of buyers for their potatoes, farmers are in a weak position when negotiating contracts, and can find themselves forced to purchase inputs from the same buyers.

In the Committee's opinion, these situations could prove problematic for farmers, since in both cases they limit the choice of supplier.

(C) Competition in the food distribution industry

It is interesting to note that independent grocers are generally very satisfied with the amendments to the *Competition Act*. What they question is the Competition Bureau's application of the spirit and intent of the Act:

However, we're going to submit to you today that those amendments won't work a whole lot and won't work very well if the Bureau is unwilling to enforce the preamble to the Act. The purpose of the Act, as stated, and as stated on their website, is that they're not only in business to protect the consumer; they also are in business to ensure that small business has an opportunity to continue to participate in the Canadian landscape. It is stated in the preamble to the Act and is stated on their website. However, when you meet with the Bureau, they'll tell you that they're only interested in the consumer, and they see low prices as the panacea, period. There needs to be a bit of equilibrium here. We need to see the Bureau take a good hard look at situations where an independent could be put out of business for whatever behaviour and determine whether, in the long run, that is good for the consumer. So having the Bureau deal with the spirit and intent of the Act is very important.²⁵

The Committee notes that the reference to small business having the opportunity to participate in the Canadian economy is not in the preamble of the *Competition Act* but rather in the Act itself (emphasis added):²⁶

Purpose of Act

1.1 The purpose of this Act is to maintain and encourage competition in Canada in order to promote the efficiency and adaptability of the Canadian economy, in order to expand opportunities for Canadian participation in world markets while at the same time recognizing the role of foreign competition in Canada, in order to **ensure that small and medium-sized enterprises have an equitable opportunity to participate in the Canadian economy** and in order to provide consumers with competitive prices and product choices.

For some time now, the members of the Committee have been attempting to understand how the concentration that we see in the food distribution industry can be compatible with the purpose of the *Competition Act*. This question is even more pertinent when one considers the practice of demanding discounts in return for shelf space, a practice that particularly affects independent grocers:

We also deal with issues related to vendors. You have to understand that most of the major distributors in Canada work with manufacturers this way: they treat their shelf space as real estate, and it costs money to get the product on the shelf. The price of putting that product on the shelf, the price of the real estate, continues to escalate at a very rapid pace. In fact, as someone said to me last week, it's unrelenting, it doesn't cease, and it's worse than anybody has seen in the last 40 years. We call that the "trade spend", and according to some estimates, Canada has the second-highest trade spend in the world, second only to Germany. So if you look at somebody, a fully independent, that is trying to buy product from the same manufacturer, it doesn't have the same weight to get the same amount of support. So they're obviously settling for less.²⁷

25 John Scott, President, Canadian Federation of Independent Grocers, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 15 – 1140, 2nd Session, 40th Parliament, Ottawa, 23 April 2009.

26 *Competition Act*, section 1.1, http://laws.justice.gc.ca/en/showdoc/cs/C-34//20090613/en?command=home&caller=SI&search_type=all&shorttitle=competition&day=13&month=6&year=2009&search_domain=cs&showall=L&statuteyear=all&lengthannual=50&length=50.

27 John Scott, President, Canadian Federation of Independent Grocers, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 15 – 1140, 2nd Session, 40th Parliament, Ottawa, April 23, 2009.

To make matters worse for independent grocers, especially franchises, loyalty agreements often make it very difficult to access national brands or local products. Therefore,

Recommendation 2.4:

The Committee recommends that the Competition Bureau, in its role of ensuring that small and medium-sized enterprises have an equitable opportunity to participate in the Canadian economy, study the impact of the discounts-for-shelf-space practices and of loyalty agreements in the food distribution industry, and the legality of eliminating those practices.

While buying locally in the agri-food industry is gaining momentum, the Committee was surprised to learn that the major food distribution companies funnel a large part of their merchandise through a single distribution centre. This means that local producers can no longer deliver their products directly to their regional supermarket, but are forced to deliver them to the distribution centre—in Toronto, for example—before they can be shipped back to a regional supermarket. The large distribution companies apparently believe that this approach is logistically better and more efficient. In the Committee's view, however, this practice may have negative consequences for the environment, and for the development and marketing of regional products. The Committee nevertheless notes that it is difficult for governments to intercede in companies' business decisions concerning their supply logistics. At present, there is only one terminal, located in Toronto.

The distribution systems for the major distributors are very well defined and they do move through central warehouse systems. Having said that, there are several things you can do. First, in Toronto we have something called the terminal. Product comes into the terminal--and you may be familiar with that, sir, I'm not sure where you're from--from all over the world, but it comes in particularly from Ontario. Every day everybody, including the major corporate chains, goes down there and buys that product. That fresh product is in their stores later on that day.

We only have one terminal in Canada, Mr. Chair. It wouldn't be a bad thing to look at whether we need a terminal in Montreal and a similar terminal in Vancouver. We could easily do that kind of thing, and that does two things. It helps the farmer, and it also helps the independent grocer and the food service group differentiate themselves from all others. It's very important, and I'd consider that.²⁸

We think it would be wonderful if the federal government and the province were to partner on developing food terminals in Montreal and Vancouver, which would be great for the

28 John Scott, President, Canadian Federation of Independent Grocers, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 15 – 1145, 2nd Session, 40th Parliament, Ottawa, April 23, 2009.

whole chain. It would be good for everyone and would stop the silliness we have now whereby we have Nova Scotia retailers coming to Toronto to buy blueberries.²⁹

The Committee believes that in this period of economic recession, the establishment of two new food terminals, one in Vancouver and the other in Montreal, might be an economically appropriate way to invest in infrastructure. The investment could have long-term economic benefits, particularly for small and medium-sized businesses in the agri-food sector. Therefore,

Recommendation 2.5:

The Committee recommends that the federal government conduct a feasibility study, in the form of a cost-benefit analysis, of the possibility of providing incentives for the establishment of two new food terminals in Canada. The analysis should include the long-term positive impact on the development of small and medium-sized enterprises in Canada's agri-food sector.

The issue of converting the Interac Association from a not-for-profit organization into a profit-oriented organization was an important concern for some witnesses. The Committee was told that the then proposed changes in Interac's status could be particularly disadvantageous to smaller food stores and independent grocers. Between 50 and 75% of all retail food sales are made by debit card, and the Canadian Federation of Independent Grocers provided the following description of how converting the Interac Association into a profit-oriented entity might affect its members:

The debit card issue is huge for us; it's just huge.

[...]

If right now I'm a small guy in Thunder Bay, I might be paying 5¢ per transaction, and I can handle that. If all of a sudden I have to go to a percentage, as I have done with Visa, or whatever—1.75%—the transactions I am dealing with are on the order of \$200, and my costs of dealing with that transaction have all of a sudden gone up.

You'll say it's no big deal; it's the same thing for everybody. That's not so, because some of my competitors, being the major corporates, may be carrying their own credit card and may have their own access to debit card systems. Their actual cost may come down. The danger of what you're dealing with right now, of scrapping the agreement the Competition Bureau has with Interac, is exacerbated in the competitive structure, particularly in our industry.³⁰

29 Gary Sands, Vice-President, Government and Industry Relations, Canadian Federation of Independent Grocers, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 15 – 1210, 2nd Session, 40th Parliament, Ottawa, April 23, 2009.

30 John Scott, President, Canadian Federation of Independent Grocers, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 15 – 1240, 2nd Session, 40th Parliament, Ottawa, April 23, 2009.

In the Committee's view, changing a not-for-profit association into a profit-making corporation automatically leads to the following question: Profit for whom? The Committee has no doubt that the reform could have had potentially beneficial consequences for some financial institutions or the major food distribution oligopolies, which would probably be able to negotiate volume discounts on Interac fees or promote their own credit card network in a deregulated environment. However, the Committee believes that such scenario would be detrimental for small food stores or independent grocers.

The Committee is therefore pleased with the February 2010 decision of the Competition Bureau turning down the request from the Interac Association to become a for-profit entity. The Competition Bureau notably disagreed that changing the Interac Association to a for-profit corporation would increase competition.³¹

(D) Competition in the packing sector

In addition to the "captive supply" issue mentioned earlier in the report, the Committee heard a number of comments on the concentration of meat-packing capacity in Canada. In June 2008, Tyson Foods announced its intention to sell Canada's largest packing plant, located in Brooks, Alberta, to XL Foods. If the sale went through, Cargill and XL Foods would own 80% of the country's meat-packing capacity. On February 27, 2009, the Competition Bureau announced that it did not object to the sale at that time because American processors were providing competition that no longer existed in the Canadian packing industry.

The Bureau conducted a comprehensive examination of the matter, interviewing over 50 industry participants in western Canada. [...] Following our investigation of the XL-Lakeside transaction, we had a similar view that U.S. packers located in northwestern and midwestern states represent competitive alternatives for western Canadian cattle producers. Industry participants confirmed that U.S. packers purchased substantial volumes of slaughter cattle and would continue to influence prices paid to Canadian cattle producers post-merger.³²

However, the Competition Bureau plans to reassess its effect on competition once the implementation of mandatory country-of-origin labelling (mCOOL or COOL) and American packers' response to COOL become clearer.

[W]e made it clear to the parties—and to the public—that we would continue to monitor the industry and reassess the competitive impact of the transaction in light of any developments with respect to mCOOL. I can assure the members of this Committee that the Bureau will not hesitate to take appropriate remedial action should our assessment

31 Source: Commissioner of Competition Announces Decision in Response to Interac's Request to Vary Consent Order, Ottawa, February 12, 2010, (<http://competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03198.html>)

32 Adam Fanaki, Senior Deputy Commissioner, Mergers Branch, Competition Bureau, Standing Committee on Agriculture and Agri-Food, *Evidence*, No. 23 – 1125, 2nd Session, 40th Parliament, Ottawa, May 28, 2009.

reveal that a transaction has resulted, or is likely to result, in a substantial lessening of competition.³³

According to the Canadian Meat Council, if livestock can no longer be slaughtered in the United States, the Canadian market will become as dysfunctional as it was in 2003, when the American border was closed in response to the outbreak of mad cow disease. Less competition is likely to result in an extremely damaging situation for the livestock industry for a long period. Therefore,

Recommendation 2.6:

The Committee recommends that the Competition Bureau continue to monitor the beef-processing market closely in connection with the implementation of mandatory country-of-origin labelling in the United States. The Committee also recommends that the Bureau take action when there will be indications that the competition provided by American packers in the Canadian livestock market is weakening.

33 *ibid.*

3. AGRICULTURAL RESEARCH

Research and development in primary agriculture is the backbone of our ability to compete as a nation with crops that will flourish in our challenging Canadian climate. Simply adopting a formula for funding and research that exists in another country—like Australia, for instance—as a solution for all our problems is ludicrous. We need a made-in-Canada solution that recognizes our realities.³⁴

If there was one subject on which all witnesses agreed, it was agricultural research. Technological innovation is one of the best ways of improving Canadian farmers' competitiveness through efficiency gains, higher yields and new product development.

Many studies have documented the fact that returns on investment in agricultural research are relatively high. For example, Dr. Kurt Klein, a professor in the Department of Economics at the University of Lethbridge, cited his studies showing annual rates of return of about 30% on government investment in wheat breeding and beef research. Similarly, Brian Otto, President of the Western Barley Growers Association, referred to a University of Saskatchewan study which concluded that each dollar invested in wheat research produces a net return of \$4, and each dollar invested in barley research produces a net return of \$12.

However, research has evolved appreciably since the late 1980s. In general, the agricultural research commitment of governments, universities and, to some extent, the private sector has declined over that period,³⁵ and the nature of the research has changed. For example, the private sector has assumed a more prominent role in areas such as plant breeding. According to Dr. Klein, the passage of the *Plant Breeders' Rights Act* (PBRA) in 1990 allowed the federal government to reduce its commitment in certain fields of research where the private sector could invest and make a profit. In the 10 years that followed the PBRA's passage, the private sector approximately tripled its investment in plant breeding. According to the Canadian Seed Trade Association (CSTA), the private sector now accounts for 39% of total research and development investment in new varieties, followed by Agriculture and Agri-Food Canada (21% of investment), the provinces (6%) and farmers (about 4%).

Governments, especially the federal government, have tended to focus on downstream projects that produce faster gains. The federal government has also placed greater emphasis on assisting research through cost-sharing or contribution programs that are accessible to the entire Canadian scientific community. Those federal government programs are still significant, as shown by the March 19, 2009, announcement of three

34 Doug Robertson, President, Grain Growers of Canada, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 10 – 11:25, 2nd Session, 40th Parliament, Ottawa, March 24, 2009.

35 The Inventory of Canadian Agricultural Research (ICAR) reports a 36% decrease in the number of agricultural research person-years in governments, universities, industries and private organizations between 1995 and 2002. For the public sector as a whole (governments and universities), the decline was 43% between 1991 and 2002.

initiatives involving biodiesel, a study of the health benefits of pulses, and the development of technologies to enhance the industrial value of straw from cereal grains.

Agricultural producers have also developed research strategies that are partly funded through a system of sales levies. For example, the honey industry established its own research fund to offset cuts in research funding by various governments. The canola industry is focusing its research efforts on health- and nutrition-related innovations, since it benefits from substantial private-sector investment in other areas, such as plant breeding and production systems.

Despite farmers' efforts and federal government funding, all the witnesses insisted that publicly funded research at AAFC research centres must continue to play a leading role. The AAFC research centres are an invaluable source of expertise, and many witnesses expressed concern that that source was gradually disappearing.

Modern growing techniques such as direct seeding, fertilizer optimization and cereal-legume crop rotation are the result of agronomic research by the federal and provincial governments. This kind of research, which does not produce short-term results, will never attract private investment. The structure of the industry, which consists of thousands of agricultural operations, also limits farmers' ability to conduct their own research. According to witnesses, agronomic research, traditionally conducted by the federal government, has been neglected.

The base budget for research has probably shrunk in real terms, and the number of researchers has probably declined. The industry is very concerned that many researchers, especially plant breeders, who are expected to retire in the near future, will not be replaced in time. It could take years to rebuild all that expertise. The Grain Growers of Canada also noted that the operating budgets of research facilities have been cut. In some cases, brand-new laboratories do not have the funds to buy the equipment or tools they need to do their work.

Some witnesses also told the Committee that there was a lack of government support for the dissemination of research and technical knowledge. According to Paul Rouillard of the Fédération des producteurs d'agneaux et de moutons du Québec, the most important point for improving the sheep industry's competitiveness is to make consulting services available to producers. Lee Townsend of Wild Rose Agricultural Producers also commented on the lack of extension services in the honey industry.

The Canola Council of Canada recommended that the federal government form partnerships with industry to determine each agricultural product's research needs and the best locations for conducting the research. In *Growing Forward*, AAFC has already committed to developing a comprehensive research action plan that will make the most of government, university and private-sector scientific resources. Although the Committee supports it, that approach may uncover major gaps in some fields of research that are traditionally conducted by the federal government and have been identified as essential by witnesses. The research action plan will have to be combined with a substantial increase in the federal government's research capacity. Therefore,

Recommendation 3.1:

The Committee recommends that the government carry out a comprehensive review of its scientific capacity and realign and/or increase its resources with the needs and gaps identified by the research action plan being implemented as part of *Growing Forward*.

It is clear that reinvestment in government research cannot address all of the sector's needs. For that reason, it will have to be combined with an effort to encourage private investment in certain fields. For example, while the CSTA's member companies invested more than \$56 million in plant breeding in 2007 and plan to almost double that total to \$106 million by 2012, 96% of that private-sector investment will go to three crop types: canola, corn and soya. Investment in the development of new cereal varieties, forage plants and other crops will decline between now and 2012. Other witnesses confirmed that total funding for research on breeding traditional crops such as wheat and barley is down.

Some witnesses saw a direct correlation between the vitality of research and the competitiveness of Canadian agriculture. The introduction of new varieties of canola has sharply increased production and made Canada a world leader. In contrast, Canada's share of the global wheat market has shrunk from 23% 15 years ago to 15% today. Improving the regulatory framework covering new varieties should therefore be a priority.

First and foremost, there is a direct connection between investment and intellectual property. The crops that have the largest proportion of private-sector investment in research and development (canola, corn and soya) share an improved system of intellectual property protection; for example, they may contain patented gene sequences, or they are hybrid varieties. According to the CSTA, Canada is at a distinct disadvantage in that area for most other crops. In particular, seed growers noted that a new variety of cereal may sell well in the first year after its introduction, but that sales fall sharply in the second year and decline further in subsequent years. As a result, it is very difficult for a private firm to consider developing a new variety, which takes 10 to 12 years to produce and may sell for only one or two years.

Canada's PBRA is based on the model set out in the 1978 revision of the International Convention for the Protection of New Varieties of Plants, administered by the International Union for the Protection of New Varieties of Plants (UPOV). However, almost every other developed country now complies with the 1991 revision of the UPOV Convention, which provides added protection for plant breeders. That protection serves as a small extra incentive to engage in plant breeding. Moreover, some countries go much farther than the 1991 UPOV Convention. For example, American and Australian seed growers can patent plant varieties; patents provide much greater protection than breeders' rights, since they prohibit farmers from keeping a portion of their harvest to use as seed the following year.

Canada signed the 1991 revision of the UPOV Convention in 1992, but to ratify it, Canada has to amend the PBRA. The amendments were included in a bill that died on the

Order Paper at the end of the First Session of the 36th Parliament in 1999. Subsequently, the Canadian Food Inspection Agency (CFIA) held further consultations, which concluded in March 2005. The Committee is of the opinion that updating the PBRA must become a priority. Therefore,

Recommendation 3.2:

The Committee recommends that the government revise its intellectual property protection policy with respect to plant breeding and prepare a legislative action plan to introduce this revised policy, which should also consider the farmers' ability to save their own seeds.

Recommendation 3.3:

The Committee recommends that the government renew and expand Canada's system of publicly-funded plant breeding and variety development, and ensure that breeding and development be carried out in cooperation with publicly-owned research stations and universities.

In addition to revising the policy for protecting plant breeders' rights, the CSTA proposed a tax incentive to encourage the use of certified seed. The CSTA suggested that farmers should be allowed to report 155% of the cost of certified seed as an expense for income tax purposes. That would make the cost of certified seed equal to that of seed stored by the farmers. According to the CSTA, the income tax that the government would lose if the tax incentive resulted in an increase (of 30 to 50%) in the use of certified seed would be roughly \$89.5 million. However, the increase in annual income for farmers alone due to the introduction of eight new varieties would be more than \$170 million.

Witnesses also called for reform of the Canadian variety registration system. Many of them noted that elimination of kernel visual distinguishability (KVD) as a criterion in the wheat variety registration system helped accelerate the development of new cultivars. After six years in which no new variety of winter wheat was submitted, three new varieties have been approved this year.

Following a series of consultations over a period of about 10 years, the government also published, in June 2008 in Part I of the *Canada Gazette*, regulatory changes for the introduction of a new system for approving seed varieties. Under the proposed regulations, crops would be divided into three groups with different approval processes. For the first group, the approval process would be the same as the current process, while for the other two, the process would be simplified. However, no action has been taken since the end of the comment period in August 2008. With the exception of a few minor varieties, no crop was included in either of the two groups that would benefit from a simplified approval system, and adding crops to those groups will entail amending the regulations again.

For the three crops that enjoy high levels of investment from the private sector, the industry has been able to cope with the current system. Corn and non-oil producing soya are not subject to the variety approval process. With regard to canola and soya, the variety recommending committees have been working with the other players in the value chain to make the criteria more flexible. The result has been strong growth in those crop sectors and new opportunities for farmers.

In contrast, the western Canadian wheat registration system is based on testing by the Prairie Grain Development Committee (PGDC). In most cases, three years of assessment are required for the PGDC to make a final decision. The PGDC's three assessment teams (grain quality, agronomic performance and disease resistance) report to a main committee for a final vote on whether to reject a variety or support its registration by the CFIA. The quality assessment team is composed, in part, of representatives of the milling industry, the CWB and the Canadian Grain Commission (CGC), but as the sole vendor of western Canadian wheat, the CWB ultimately determines the market objectives. Various changes were proposed in the system: for example, a class of wheat for general use was established for new cultivators intended for ethanol or livestock feed production, for which the PGDC makes no approval recommendations. However, there are very few options for wheat for human consumption, which suggests to Professor Fowler of the University of Saskatchewan that the western Canadian wheat registration system is flexible, but only where the CWB's marketing priorities are concerned, and that a wide range of niche markets cannot be explored. In that connection, he noted that Canada takes 50% of American flour exports, and that the Canadian wheat variety approval system prevents Canadian farmers from growing for food purposes almost all the cultivars used to produce that imported flour.

Recommendation 3.4:

The Committee recommends that the government introduce a new variety registration system and work with the variety recommending committees to make the selection criteria more flexible.

All of these efforts could prove to be in vain without an adequate uptake of research innovations at the commercialization level. Dave Smardon of BioEnterprise Corporation told the Committee that agriculture is being revolutionized by a wave of agri-technology innovation. Over the past 15 months alone, his company has seen more than 300 new agri-industrial products and technologies in Canada, in areas as diverse as genomics, nutraceuticals and bioproducts (for example bioplastics). He warned the Committee, however, that Canada will need to redouble its efforts to benefit from these innovations, and will have to show leadership by developing the necessary tools to move innovations from the research stage through to commercialization. It is all very well for Canada to be one of the leaders in agricultural research and innovation, Mr. Smardon argued, but its influence on the world stage is continuing to shrink. This can be explained largely by a failure to commercialize the new agri-technologies developed here.

Mr. Smardon brought to the Committee's attention the report of a study carried out in February 2009 for Agriculture and Agri-Food Canada, entitled *The National*

Commercialization Assessment: Taking Commercialization National. The report noted the lack of support for commercialization in the agriculture and agri-food sectors, and linked Canada's "abysmal" track record in commercializing its new agricultural and agri-food products to the absence of funding programs for commercialization. Among the report's recommendations were the development of a national commercialization expansion program and the creation of a national funding vehicle for agri-technology commercialization. The Committee considers that implementing these two recommendations would help to stimulate the commercialization of agri-technologies and encourage private-sector participation. Therefore,

Recommendation 3.5:

The Committee recommends that the government follow up on the report entitled *The National Commercialization Assessment: Taking Commercialization National* and develop, with the provinces' agreement, a national commercialization expansion program and a national agri-technology commercialization funding vehicle.

4. THE REGULATORY FRAMEWORK AND COMPETITIVENESS

The Committee has for a long time been interested in the effect of regulation on the competitiveness of Canada's agriculture and agri-food sector. It has recommended a number of times in the past that the government undertake a full review of regulatory measures that could hurt the ability of certain sectors of this country's agricultural production and processing industry to compete with those in other countries.³⁶ While not exhaustive, this part of the report sums up what various groups representing the industry have identified as regulations that affect the competitiveness of Canada's agriculture and agri-food sector.

(A) Regulations on food safety and labelling

Agricultural and agri-food production is governed by a large number of food-safety laws. Their primary objective is to make sure that food products are safe to eat, but many of the measures have no direct impact on food safety. The witnesses argued that it is therefore necessary to re-orient the regulatory framework so that it encourages the sector's competitiveness while maintaining the primary objective of a safe and secure food supply. There are many examples, not all affecting competitiveness in the same way.

First, some regulations contain requirements incumbent on Canadian producers or processors but not on their direct competitors. There is a very strong feeling among Canadian farmers that every requirement imposed on them should also be imposed on their competitors. Products imported into Canada are not always grown according to Canadian production standards; for example, a pesticide banned in Canada may still be in use in other countries. Canadian distributors and retailers are increasingly demanding that their Canadian suppliers have on-farm food safety programs, but they do not insist on the same standards for competing imported products.

In the beef industry, Canadian slaughterhouses are required to remove certain parts of the carcass that are likely content to contain the agent responsible for BSE. The enhanced animal feed ban policy³⁷ forbids the use of specified risk materials (SRMs) in any of a range of products, including not only animal feed but also fertilizer. The American policy is less stringent, although equally safe according to the industry: it contains a shorter list of SRMs, and allows their use in the manufacture of fertilizer.

36 House of Commons, Standing Committee on Agriculture and Agri-Food, *Report on the Beef and Pork Sector Income Crisis*, First Report, 2nd Session, 39th Parliament, December 2007.

House of Commons, Standing Committee on Agriculture and Agri-Food, *An Analysis and Comparison of Selected Canada-United States Farm Input Costs*, Eighth Report, 2nd Session, 39th Parliament, June 2008.

37 This policy can be consulted on the Canadian Food Inspection Agency's Web site at: <http://www.inspection.gc.ca/english/anima/heasan/disemala/bseesb/enhren/enhrene.shtml>.

Industry representatives told the Committee that they had supported the Canadian policy when it was introduced because they thought it would help reopen Canada's export markets, and they expected that the United States would harmonize its regulations with ours. But the United States took a different approach, and according to the witnesses the Canadian regulations did not help to open any more export markets than had been opened by the United States for animals older than 30 months. Canadian slaughterhouses, particularly those that slaughter animals older than 30 months, have found themselves at a significant competitive disadvantage with American slaughterhouses.

In a letter to the Minister of Agriculture, the industry has called for the introduction of a compensation program for costs arising from the elimination of SRMs for animals older than 30 months. The program could remain in effect until Canadian and American policies on the elimination of SRMs are harmonized.

Recommendation 4.1:

The Committee recommends that the government provide financial compensation to the beef industry for the additional cost arising from the disposal of specified risk materials caused by the Canadian regulations on animal health, and monitor this program to ensure it is effective.

Federally registered meatpacking plants pay fees for every inspection carried out by the CFIA, while American meatpackers pay no fee for inspections as long as these take place during normal working hours: fees are charged only for after-hours inspections. In 2008, Canadian meatpackers paid over \$21.4 million in inspection fees and the Government of Canada agreed to remit over \$2 million in fees to the red-meat sector. A CFIA working group on user fees recommended that fees for meat inspections during normal working hours be done away with.

Recommendation 4.2:

The Committee recommends that the CFIA's policy on meat inspection fees be revised to eliminate billing for inspections during normal working hours.

A second effect of the regulatory framework can be to limit Canadian access to certain products used in other countries. It is a long-standing irritant for the industry that the pesticide registration process does not permit rapid access to new products available in the United States or other countries. The veterinary drugs and food additives registration processes present the same problem. The Committee has been following the activities of the Pest Management Regulatory Agency (PMRA), Health Canada and the CFIA for many years now, and is aware of the work being done to harmonize Canada's regulations with those of the other NAFTA countries. All witnesses representing the industry would

nevertheless like to see greater harmonization with the United States of the new products registration process, given the increasing integration of the North American market.

Recommendation 4.3:

The Committee recommends that the government undertake a study into the level to which imported agricultural products do not meet the same standards required of Canadian producers and provide recommendations, which can be implemented to resolve this matter and that the report be submitted to the Committee.

Some witnesses also maintained that the registration system for generic pesticides does not have farmers' interests in mind in any way, and that an overhaul of the process is essential. According to the directive entitled "Protection of Proprietary Interests in Pesticide Data in Canada" (PPIP), which is administered by the PMRA, generic pesticides cannot be placed on the market immediately after the PMRA scientific review. This means that fewer new generic products are available for purchase, even though they would allow farmers to save significant sums of money. Regulations on generic pesticides are currently being drafted, and according to Jim Mann, President of the Farmers of North America (FNA), it is important that the new regulations include a transition mechanism to allow for the rapid release of products once their patent expires.

Mr. Mann specifically recommended that, in the case of products whose patents have expired, the generic product should be approved and commercialization begin immediately after the necessary scientific review. For products that are still patent-protected, the FNA suggested that the process should start a year or two before the expiration of the protection so that all procedures could be completed by the patent expiry date. In other words, the PMRA scientific review, the "offer to pay", the compensation negotiations and any arbitration would be completed, and the product would be registered and put on the market the day after its patent protection expired.

In addition, in the United States a generic version is approved and marketed as soon as a possible registrant submits an "offer to pay". It is thus already on the market during the negotiations on compensable data and subsequent arbitration, if any. In this way, farmers have access to more affordable generic products as soon as the period of commercial exclusivity ends. Under Canada's current policy, a negotiating period of 120 days is allowed for after the PMRA scientific review, and this 120 days is followed by a further 120 days for binding arbitration. According to the FNA, this amounts to extending the period of commercial exclusivity when patent protection has in fact expired.

Recommendation 4.4:

The Committee recommends that the regulations on approval of generic pesticides allow for the immediate marketing of generic products as soon as the required PMRA scientific review has been completed.

Another effect of regulation can be to stifle innovation or to discriminate against Canadian products. We saw, in the preceding part of the report, how the registration of new varieties sets up barriers to the development of new cultivars. Larry Martin, Senior Fellow at the George Morris Centre, spoke to the Committee about a study he had just published demonstrating how Health Canada guidelines on, for example, health claims for food products and the inclusion of certain additives to create functional foods, prevent the marketing of many innovative products. In the 12 cases he studied, the lost-opportunity costs for businesses were estimated at over \$440 million. In Mr. Martin's view, Canada's food regulation system has fallen behind the systems in the other industrialized countries.

Recommendation 4.5:

The Committee recommends that the government introduce a policy of systematic evaluation of the effects of all labelling and food safety regulations, new or in force, on the competitiveness of Canada's agriculture and agri-food sector, and take action to expedite the timeliness of the approval process without undermining the integrity of the system.

Jacques Légaré of the Conseil de transformation agroalimentaire et des produits de consommation (CTAC) raised the issue of the new rules for the labelling claim "Product of Canada". While the new directives requiring that at least 98% of the content of such products must be Canadian are well adapted to non-processed (or lightly processed) single-ingredient foods like honey and fresh fruit, and are supported by the producers of such foods, the same cannot be said of foods that require inputs like salt, sugar or the many spices not native to Canada. According to CTAC, the rules can create confusion: some products can be labelled "Produit du Québec" but not "Product of Canada", and some products made in Canada can be identified as "Canadian" outside the country but not here at home. In addition, since manufacturers no longer enjoy the advantage of being able to assert their products' quality by labelling them "Product of Canada", and since they do not have the option of using "Made in Canada", they are starting to look at buying their inputs from foreign sources rather than the domestic market. According to CTAQ, manufacturers processed 85% of Quebec's agricultural production just three years ago, but this figure fell to 70% by 2008. CTAQ is afraid the rules for using the "Product of Canada" claim could aggravate this trend.

Recommendation 4.6:

The Committee recommends that the government maintain the 98% rule for Canadian content, but exclude, from this percentage, ingredients, such as spices and sugar, that are not grown in Canada.

The Committee wishes to reiterate its support for the promotion of locally grown and raised products. It notes, however, that campaigns to promote local buying can have a negative effect on the marketing of some Canadian products. Brenda Simmons of the

Prince Edward Island Potato Board said that it is becoming harder for Prince Edward Island potatoes to penetrate Quebec and Ontario markets at certain times, because these provinces actively promote their own farm produce. But Prince Edward Island cannot count solely on its own domestic market to sell its crop; it must export to other Canadian provinces.

(B) Marketing agricultural products

As Laurent Pellerin, President of the Canadian Federation of Agriculture, noted, agri-food companies' vision statements never mention ensuring a better return for farmers. It is not their role to take care of farmers, who must do business with entities that have more clout in the marketplace than farmers do. Collective marketing is thus an excellent choice for improving farmers' returns. However, while the witnesses heard by the Committee had no a priori doubts about the benefits of collective marketing for farmers, their opinions were less categorical with respect to regulated collective marketing imposed on all producers of the same agricultural commodity.

The supply management issue was raised a number of times at the Committee's meetings. The Committee heard from national groups representing producers in three areas with supply management: milk, chickens and turkeys. All reiterated their support for supply management, which, in their opinion, guarantees long-term economic stability, and they put forward arguments to show that the system helps make Canadian farmers more competitive. For instance Richard Doyle, Executive Director of the Dairy Farmers of Canada, said that most of the world's dairy farmers are currently in crisis, including those in Europe and the United States, but not in Canada. He pointed out that Canadian dairy producers receive over 60% of the retail price paid by consumers, and that this proportion has been extremely stable in comparison with any other country. No other country has been able to achieve either the stability, or the percentage share of the consumer dollar, that the Canadian dairy industry can claim. Although Colin Busby, a policy analyst with the C.D. Howe Institute, agreed that supply management allows greater stability for producers, he told the Committee that, in his opinion, this stability is achieved at the consumer's expense. He said for example that the Organisation for Economic Co-operation and Development (OECD) has estimated the cost of supply management to Canadian consumers at \$2.6 billion, equivalent to an annual transfer of some \$209 per Canadian household. On the other hand, Peter Clark, President of Grey, Clark, Shih and Associates, who worked for the government at the time supply management was introduced, cited a study from the University of California Davis showing that changes in the farm-gate price are not reflected in the retail price. Supply management was designed to insulate farmers from fluctuations of supply, and in that respect it does a great deal for their long-term competitiveness.

Recommendation 4.7

The Committee recommends that the federal government continue to maintain supply management and its three pillars—producer pricing, import controls and production discipline—as an integral business risk management program in Canada, and that market access for

Canada's agricultural exporters is strengthened so that all sectors can continue to provide producers with a fair and equitable income.

(C) Transport, fuel and farm equipment

The transporting of agricultural products is an important factor in the competitiveness of Canadian farmers, because shipping costs represent a sizeable percentage of the final price, especially for non-processed commodities. Brian Otto, President of the Western Barley Growers Association, said that landlocked Western Canada is clearly at a disadvantage compared with Australia and other regions closer to ocean ports. Some sectors, such as pulse crops, have launched efforts to find solutions; for example, Pulse Canada has formed a transport working group, made up of representatives of railways, steamship lines, freight forwarders, transloaders and shippers from across the country. It has designed software that measures the transport system's performance and helps identify shortcomings that require commercial and regulatory solutions. The working group has listed areas where infrastructure investment would increase efficiency.

Ron Lennox, Vice-President of the Canadian Trucking Alliance, told the Committee that the competitiveness of the agriculture sector depends on the competitiveness of the transport sector, and that every cost imposed on the trucking industry will ultimately be paid by producers in the form of higher rates. He discussed a number of regulations and policies that raise transport costs, such as new border-crossing requirements and greenhouse gas emissions standards, to mention just two. John Schmeiser, Vice-President of the North American Equipment Dealers Association (NAEDA), talked about measures in the United States that make it possible to accelerate the depreciation on farm equipment. Such measures have once again put Canadian farmers at a disadvantage against their American competitors. He suggested increasing the capital cost allowance on new farm equipment purchases, a proposal that was supported by a coalition of 14 producer, dealer and manufacturer groups, including the Association of Equipment Manufacturers. The NAEDA also recommended introducing a financial incentives program to help farmers replace older diesel engines with cleaner equipment.

Recommendation 4.8:

The Committee recommends that the government update its capital cost allowance schedule for new farm equipment purchases, as proposed by the Association of Equipment Manufacturers and the North American Equipment Dealers Association.

The regulation of biofuels was also the subject of discussion by the Committee. There are two obvious links between biofuels and the competitiveness of the agriculture sector:

- Farming consumes large quantities of fossil fuels, either directly in the form of fuel or indirectly in the form of fertilizer. Farmers thus have

everything to gain from a biofuel industry capable of exerting competitive pressure on the fossil fuel industry.

- From the production standpoint, the biofuel industry can also increase competitiveness among grain buyers, to the benefit of grain growers.

In June 2008, the Parliament of Canada passed Bill C-33, *An Act to amend the Canadian Environmental Protection Act, 1999*. The Act gives the government the power to impose a standard for renewable energy content in fuel (the renewable fuels standard, or RFS). Gordon Quaiattini, President of the Canadian Renewable Fuels Association, stressed the importance of respecting the 2010 deadline for introducing the RFS. Pushing it back could threaten the environmental and economic opportunities anticipated from the industry's development. Peter Boag, however, President of the Canadian Petroleum Products Institute (CPPI), said that because of the delays encountered since the government published its notice of intention in December 2006, most CPPI members will be unable to achieve the objective of 5% renewable content in gasoline by January 2010. He suggested pushing the deadline back to 2012. According to the CPPI, businesses cannot invest without knowing the details of the regulations. Some representatives of the livestock-production sector also mentioned the possible effect of the regulations on their competitiveness, since the biofuels industry is in direct competition with them for the supply of corn.

Rail transport of grain in the West is an example of a market that is regulated due to the absence of competition: the *Canada Transportation Act* sets a cap on the revenue that railways can earn for moving grain in the West. The Committee has made a number of recommendations in this regard; in June 2007, it recommended that the government conduct a specific review of the level of services provided.³⁸ Doug Robertson, President of the Grain Growers of Canada, strongly supports the level-of-service study currently being carried out by Transport Canada, and asked that the government act promptly once the study's conclusions are released. In the view of Cliff Mackay, President and CEO of the Railway Association of Canada (RAC), the level-of-service study will make it possible to provide reliable data on the supply chain and identify the industry's strong and weak points.

Like levels of service, transport costs are a problem. According to William Wilton, President of the Prairie Oat Growers Association, freight rates for transporting western oats from Canada to the United States have gone up on seven occasions over the past 16 months, for a total increase of 34%. The growers are expected to absorb the cost increases. The Committee recommended to the government in April 2008³⁹ that it include in the mandate of the body responsible for conducting the level-of-service review a study

38 House of Commons, Standing Committee on Agriculture and Agri-Food, *Report on the Fact-Finding Mission on Canada's New Agriculture and Agri-Food Policy*, Fourteenth Report, 1st Session, 39th Parliament, June 2007.

39 House of Commons, Standing Committee on Agriculture and Agri-Food, *Report of the Standing Committee on Agriculture and Agri-Food Requesting the Minister of Transport to Review Freight Rates and Their Impact on Grain Farmers*, Fifth Report, 2nd Session, 39th Parliament, April 2008.

of grain freight rates and their impact on Canadian grain shippers and farmers. While the industry is not opposed to a cost review, there is mixed opinion whether the level-of-service review should be completed first, to avoid any confusion. The RAC also said that any radical change in the provisions on maximum revenue entitlement under the *Canada Transportation Act* would have a significant negative impact on the competitiveness of Canadian agriculture. A return to increased government intervention could hurt all parties. According to the RAC, the key to investment is regulatory stability and a transport system based on market principles.

Recommendation 4.9:

The Committee recommends that the government follow up promptly on the conclusions of the study on levels of service in rail transport of grain currently being conducted by Transport Canada.

(D) Agricultural input security

Lastly, the Committee looked at the issue of security in the context of commercialization and storage of fertilizers and chemicals. Given that such products can be used by terrorists and criminals to manufacture weapons or illegal drugs, access to them must be carefully regulated and restricted throughout the entire commercialization process. However, this is not always done in a consistent manner, and unless careful attention is given to the process it can undermine farmers' competitiveness.

According to the CAAR, safety and security codes and regulations are being imposed on a product-by-product basis, both by government and by industry with no regard for their cumulative impact on agricultural retailers. The CAAR instanced the Fertilizer Safety and Security Council's Ammonia Code of Practice, the CSA B620 regulations on ammonia, the Agrichemical Warehousing Standards Association pesticide storage codes, Natural Resources Canada's Restricted Components Regulations (granular nitrogen), Bill C-9 (amending the Transportation of Dangerous Goods Regulations), provincial Boiler Branch regulations and future security reviews of urea and ammonium nitrate fertilizers. While upgrading their facilities will require a capital investment by retailers, there will be little financial return for them. The result will be higher prices or a decision to stop selling these products.

Agricultural retailers see it as self-evident that their sector should subject all crop inputs to a single integrated security plan that is both practical and economical. The security of crop input retail sales facilities must be improved by investing in fences, surveillance cameras, lighting, alarm systems, padlocks, computers, scanners, software and training. The CAAR estimates the total cost of implementing a complete security protocol in the some 1,200 retail sales facilities across Canada at about \$100 million.

The CAAR hopes that the federal government will share the costs of such a plan, either via a tax credit or through a direct contribution program. According to the CAAR, American retailers of agricultural inputs already benefit from government assistance in the

form of tax credits and higher contributions: the American tax credit for agricultural sales security puts Canadian agricultural retailers at a disadvantage vis-à-vis their American competitors. The Committee notes that there is already one partnership between the government and an industry to improve security, the Marine Security Contribution Program, which allows the reimbursement of 75% of eligible expenditures for security in Canadian ports.

Recommendation 4.10:

The Committee recommends that the government establish a program similar to the Marine Security Contribution Program to assist Canadian agricultural retailers financially in implementing an integrated security plan and averting the potential threat of the use of fertilizers and pesticides for criminal purposes.

CONCLUSION

Canada has all the human and natural resources it needs to be a world leader in agriculture and agri-food. However, the emergence on the world market of countries producing low-cost commodities, and the trade restrictions associated with health crises such as BSE, have eroded of Canadian farmers' market share. It is nevertheless the Committee's view that Canadian farmers have the resources to bounce back and regain world leadership in the sector. Since the competitiveness of farmers also depends on the competitiveness of other links in the food supply chain, the Committee's recommendations have dealt with a wide range of issues relating to market development, competition, research and regulation, which affect not only farmers but also upstream suppliers and downstream processors and distributors in the agri-food chain. Careful follow-up on the recommendations in this report will ensure that Canada's agriculture and agri-food sector will be able to gain market share internationally and domestically, and will increase the profits that farmers can make from the sale of their products.

LIST OF RECOMMENDATIONS

Recommendation 1.1:	5
The Committee recommends that the Minister of Agriculture and Agri-Food ensures that the Market Access Secretariat continues its effort to resolve technical non-tariff barriers erected by foreign jurisdictions against Canadian products.	5
Recommendation 1.2:	6
The Committee recommends that the Market Access Secretariat pursue a strategy of enhancing the value of all animal and plant products to maximize the benefits of improved access for Canadian products.	6
Recommendation 1.3:	6
The Committee recommends that Agriculture and Agri-Food Canada develop as promptly as possible a national strategy aimed at establishing an age verification system, in order to harmonize the various provincial systems without weakening those already in place, and put Canadian agri-food products in a better position to access foreign markets, and that this cost not be borne exclusively by farmers.	6
Recommendation 1.4:	7
The Committee recommends that the Government of Canada create in advance a list of South Korean goods that would be subject to retaliatory trade measures if the WTO special group rules in favour of Canada in this matter. The goods should be targeted in such a way as to maximize the economic consequences for South Korea.	7
Recommendation 1.5:	8
The Committee recommends that the Minister of International Trade convey to Russia his strong disapproval of the protectionist measures that it has taken to reduce imports of agricultural machinery.....	8
Recommendation 1.6:	10
The Committee recommends that the government assess COOL's impact on the North American red meat industry, and in particular that it gather evidence to determine whether companies that would normally have bought Canadian products are actually still buying beef and pork in compliance with the voluntary requirements and the Final Rule.	10
Recommendation 1.7:	11

The Committee recommends that Agriculture and Agri-Food Canada propose a program to fund farm-level market development initiatives, such as a livestock age verification system for one example, in a way that is fully compatible with the criteria of the WTO’s “green box” category.	11
Recommendation 1.8:	12
The Committee recommends that the federal government undertake immediately a study of the impact that captive supply has on live animal prices in the Canadian beef sector. The results of the study shall be presented before the Committee by representatives of the Department by the first of October 2010.	12
Recommendation 1.9:	13
The Committee recommends that the \$50 million earmarked for strengthening packing capacity in Canada be spent:	13
• in the form of direct investments and repayable loans;.....	13
• to improve the efficiency of existing packing infrastructure and help some companies focus on specialized niches.	13
Recommendation 1.10:	14
The Committee recommends that Agriculture and Agri-Food Canada modify the AgriMarketing Program so that initiatives to grow the domestic market for Canadian products be eligible.	14
Recommendation 1.11:	14
The Committee recommends that the Canadian Wheat Board increase the maximum amounts permitted under the Field to Plate program.....	14
Recommendation 2.1:	18
The Committee recommends that the Competition Bureau clarify its position regarding the role that price levels play in its assessment of the degree of competition in a given market. The response should be provided in the form of a written report to the Committee.	18
Recommendation 2.2:	18
The Committee recommends that Agriculture and Agri-Food Canada in cooperation with the Competition Bureau undertake a study to explore competition issues affecting the agricultural sector in the 21st century and the appropriate role for competition and regulatory enforcement in that sector. The study will address the dynamics of competition in agriculture markets, including, among other issues, buyer power and vertical integration. The study should also include an examination of the impact of agricultural concentration on food costs, the effect of agricultural regulations and statutes or other	

applicable laws and programs on competition, which relate to patent and intellectual property affecting agricultural marketing or production and market practices such as price spreads, forward contracts, packer ownership of livestock before slaughter, market transparency and increasing retailer concentration.	18
Recommendation 2.3:	21
The Committee recommends that the Competition Bureau, as part of its study of the fertilizer industry’s pricing and marketing practices, thoroughly examine the level of competition that led to the potash prices observed in the first half of 2009.	21
Recommendation 2.4:	23
The Committee recommends that the Competition Bureau, in its role of ensuring that small and medium-sized enterprises have an equitable opportunity to participate in the Canadian economy, study the impact of the discounts-for-shelf-space practices and of loyalty agreements in the food distribution industry, and the legality of eliminating those practices.	23
Recommendation 2.5:	24
The Committee recommends that the federal government conduct a feasibility study, in the form of a cost-benefit analysis, of the possibility of providing incentives for the establishment of two new food terminals in Canada. The analysis should include the long-term positive impact on the development of small and medium-sized enterprises in Canada’s agri-food sector.	24
Recommendation 2.6:	26
The Committee recommends that the Competition Bureau continue to monitor the beef-processing market closely in connection with the implementation of mandatory country-of-origin labelling in the United States. The Committee also recommends that the Bureau take action when there will be indications that the competition provided by American packers in the Canadian livestock market is weakening.	26
Recommendation 3.1:	29
The Committee recommends that the government carry out a comprehensive review of its scientific capacity and realign and/or increase its resources with the needs and gaps identified by the research action plan being implemented as part of <i>Growing Forward</i>	29
Recommendation 3.2:	30
The Committee recommends that the government revise its intellectual property protection policy with respect to plant breeding and prepare a legislative action plan to introduce this revised policy,	

which should also consider the farmers' ability to save their own seeds.	30
Recommendation 3.3:	30
The Committee recommends that the government renew and expand Canada's system of publicly-funded plant breeding and variety development, and ensure that breeding and development be carried out in cooperation with publicly-owned research stations and universities.....	30
Recommendation 3.4:	31
The Committee recommends that the government introduce a new variety registration system and work with the variety recommending committees to make the selection criteria more flexible.	31
Recommendation 3.5:	32
The Committee recommends that the government follow up on the report entitled <i>The National Commercialization Assessment: Taking Commercialization National</i> and develop, with the provinces' agreement, a national commercialization expansion program and a national agri-technology commercialization funding vehicle.....	32
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Recommendation 4.5:	36

The Committee recommends that the government introduce a policy of systematic evaluation of the effects of all labelling and food safety regulations, new or in force, on the competitiveness of Canada’s agriculture and agri-food sector, and take action to expedite the timeliness of the approval process without undermining the integrity of the system.	36
Recommendation 4.6:	36
The Committee recommends that the government maintain the 98% rule for Canadian content, but exclude, from this percentage, ingredients, such as spices and sugar, that are not grown in Canada.	36
Recommendation 4.7	37
The Committee recommends that the federal government continue to maintain supply management and its three pillars—producer pricing, import controls and production discipline—as an integral business risk management program in Canada, and that market access for Canada’s agricultural exporters is strengthened so that all sectors can continue to provide producers with a fair and equitable income.	37
Recommendation 4.8:	38
The Committee recommends that the government update its capital cost allowance schedule for new farm equipment purchases, as proposed by the Association of Equipment Manufacturers and the North American Equipment Dealers Association.	38
Recommendation 4.9:	40
The Committee recommends that the government follow up promptly on the conclusions of the study on levels of service in rail transport of grain currently being conducted by Transport Canada.....	40
Recommendation 4.10:	41
The Committee recommends that the government establish a program similar to the Marine Security Contribution Program to assist Canadian agricultural retailers financially in implementing an integrated security plan and averting the potential threat of the use of fertilizers and pesticides for criminal purposes.....	41

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<u>40th Parliament, 2nd Session</u>		
Canadian Agri-Food Trade Alliance Darcy Davis, President Sandra Marsden, Director and President Canadian Sugar Institute	2009/03/24	10
Grain Growers of Canada Richard Phillips, Executive Director Doug Robertson, President		
Western Barley Growers Association Brian Otto, President Rick Strankman, Director		
Canadian Seed Trade Association Jeff Reid, President	2009/03/31	12
Canola Council of Canada JoAnne Buth, President		
Pulse Canada Gordon Bacon, Chief Executive Officer Barry Grabo, Chair		
Western Canadian Wheat Growers Association Mike Bast, Chair Stephen Vandervalk, Alberta Vice-President		
As an individual John Vancise, Farmer	2009/04/21	14
Chicken Farmers of Canada Mike Dungate, General Manager		
Ontario Cattlemen's Association Gord Hardy, President Dave Stewart, Executive Director Kim Sytsma, Director		
Canadian Federation of Independent Grocers Gary Sands, Vice-President Government and Industry Relations John Scott, President and Chief Executive Officer	2009/04/23	15

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<p>Canadian Petroleum Products Institute Peter Boag, President Tony Macerollo, Vice-President Public and Government Relations</p> <p>Canadian Renewable Fuels Association Tim Haig, President and Chief Executive Officer Biox Corporation Jeff Passmore, Executive Vice-President Iogen Corporation Gordon Quaiattini, President</p>	2009/04/30	17
<p>Canadian Federation of Agriculture Laurent Pellerin, President</p> <p>Coopérative fédérée de Québec Mario Hébert, First Economist Denis Richard, President</p> <p>Council for Food Processing and Consumer Products Jacques Légaré, President and Chief Executive Officer</p> <p>Wild Rose Agricultural Producers Lee Townsend, Director</p>	2009/05/05	18
<p>Canadian Fertilizer Institute Clyde Graham, Vice-President Strategy and Alliances Roger L. Larson, President</p>	2009/05/07	19
<p>As an Individual Brian Fowler, Professor Department of Plant Sciences, University of Saskatchewan</p> <p>Canadian Association of Petroleum Producers David Pryce, Vice-President Western Canada Operations</p> <p>George Morris Centre Larry Martin, Senior Fellow</p> <p>University of Lethbridge Kurt Klein, Professor Department of Economics</p>	2009/05/12	20

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<p>Canadian Wheat Board</p> <p>Larry Hill, Chair Board of Directors</p> <p>Ian White, President and Chief Executive Officer</p>	2009/05/14	21
<p>Grain Growers of Canada</p> <p>Monique McTiernan, Executive Director Atlantic Grains Council</p> <p>Richard Phillips, Executive Director</p>		
<p>Prairie Oat Growers Association</p> <p>John Dawes, Executive Director Secretary-Treasurer</p> <p>William Wilton, President</p>		
<p>Western Canadian Wheat Growers Association</p> <p>Kevin Bender, President</p> <p>Blair Rutter, Executive Director</p>		
<p>Canadian Pork Council</p> <p>Stephen Moffett, Director Jurgen Preugschas, Chair</p>	2009/05/26	22
<p>Dairy Farmers of Canada</p> <p>Richard Doyle, Executive Director</p>		
<p>Ontario Apple Growers</p> <p>Brian Gilroy, Chair</p>		
<p>Turkey Farmers of Canada</p> <p>Phil Boyd, Executive Director Mark Davies, Chair</p>		
<p>Competition Bureau</p> <p>Denis Corriveau, Senior Competition Law Officer Mergers Branch</p>	2009/05/28	23

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<p>Competition Bureau</p> <p>Morgan Currie, Acting Assistant Deputy Commissioner of Competition Mergers Branch</p> <p>Adam Fanaki, Senior Deputy Commissioner Mergers Branch</p>	2009/05/28	23
<p>Association of Equipment Manufacturers</p> <p>Howard Mains, Canada consultant, Public Policy</p>	2009/06/02	24
<p>C.D. Howe Institute</p> <p>Colin Busby, Policy Analyst</p>		
<p>Canadian Trucking Alliance</p> <p>Ron Lennox, Vice-President Trade and Security</p>		
<p>Frontier Centre for Public Policy</p> <p>Les Routledge</p>		
<p>Grey, Clark, Shih and Associates Limited</p> <p>Peter Clark, President</p>		
<p>North American Equipment Dealers Association</p> <p>John Schmeiser, Vice-President Canadian Government Affairs</p>		
<p>Railway Association of Canada</p> <p>Cliff Mackay, President and Chief Executive Officer</p>		
<p>Canadian Bankers Association</p> <p>Jon Curran, Manager Agriculture Credit Products, TD Canada Trust</p> <p>Bob Funk, Vice-President Agriculture, Scotiabank</p> <p>David Rinneard, National Manager Agriculture, BMO</p> <p>Darryl Worsley, National Manager Agriculture, CIBC</p> <p>Marion Wrobel, Director Market and Regulatory Developments</p>	2009/06/09	25

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<p>Credit Union Central of Canada</p> <p>Frank Kennes, Vice-President, Credit Libro Financial Group</p> <p>Robert Ivan Martin, Director of Research</p> <p>Pam Skotnitsky, Associate Vice-President Government Affairs</p> <p>Farm Credit Canada</p> <p>Lyndon Carlson, Senior Vice-President Marketing</p> <p>Greg Stewart, President and Chief Executive Officer</p> <p>Farmers of North America Inc.</p> <p>James Mann, President and Chief Executive Officer</p> <p>K&C Silviculture Ltd.</p> <p>Robin Dawes, Nursery Manager</p> <p>Pampev Inc.</p> <p>Luc Godin, Vice-President</p> <p>Royal Bank of Canada</p> <p>Brian Little, National Manager Agriculture and Agribusiness</p>	2009/06/09	25
<p>Carl's Choice Meats</p> <p>Carl Norg, Micro Meat Processor</p> <p>Empire Meat Company</p> <p>Kevin Soady-Easton, Butcher</p> <p>Filière biologique du Québec</p> <p>Julie Belzile, Regulatory Affairs Advisor</p> <p>France Gravel, President</p> <p>National Farmers Union</p> <p>Colleen Ross, Women's President</p> <p>Glenn Tait, Board Member</p> <p>Ontario Soybean Growers</p> <p>Dwight Foster, Director</p> <p>Roesch Meats and More</p> <p>Louis Roesch, Owner</p>	2009/06/11	26

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Organizations and Individuals	Date	Meeting
American Meat Institute J. Patrick Boyle, President and Chief Executive Officer	2009/06/18	28
Canadian Meat Council James M. Laws, Executive Director Brian Read, General Manager for Colbex-Levinoff		
XL Foods Inc. Brian Nilsson, Chief Executive Officer		
BioEnterprise Corporation Dave Smardon, Chief Executive Officer and President	2009/10/27	35
Okanagan Kootenay Cherry Growers Association Greg Norton, President		
Prince Edward Island Potato Board Brenda Simmons, Assistant General Manager		
Canadian Association of Agri-Retailers Ken Clancy, Chairman David MacKay, Executive Director	2009/10/29	36
Canadian Sheep Federation Jennifer MacTavish, Executive Director		

APPENDIX B LIST OF BRIEFS

Organizations and individuals

40th Parliament, 2nd Session

C.D. Howe Institute

Canadian Association of Agri-Retailers

Canadian Bankers Association

Canadian Fertilizer Institute

Canadian Petroleum Products Institute

Canadian Renewable Fuels Association

Canadian Seed Trade Association

Canadian Trucking Alliance

Canadian Wheat Board

Carl's Choice Meats

Chicken Farmers of Canada

Council for Food Processing and Consumer Products

Dairy Farmers of Canada

Empire Meat Company

Farmers of North America Inc.

Filière biologique du Québec

Food and Consumer Products of Canada

Fowler, Brian

Frontier Centre for Public Policy

George Morris Centre

APPENDIX B LIST OF BRIEFS

Organizations and individuals

Goff, Cam

Grain Growers of Canada

K&C Silviculture Ltd.

National Farmers Union

Okanagan Kootenay Cherry Growers Association

Ontario Cattlemen's Association

Roesch Meats and More

Turkey Farmers of Canada

Union des producteurs agricoles

Vancise, John

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings ([40th Parliament, 3rd Session: Meetings Nos. 5, 6, 7, 8, 9 and 10](#)) and ([40th Parliament, 2nd Session: Meetings Nos.10, 12, 14, 15, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 28, 35, 36, 41, 42 and 45](#)) is tabled.

Respectfully submitted,

Larry Miller, MP
Chair

Competitiveness in the Agriculture Sector:
Supplementary Report by the
Conservative Party of Canada Members of the
Standing Committee of Agriculture and Agri-Food

1. The Conservative members on the Standing Committee of Agriculture and Agri-Food (SCAAF) are pleased to submit a supplementary opinion to the Competitiveness Report. Throughout our consultations, it is known that the Government of Canada is investing in the agriculture of today and tomorrow, and that this is having a beneficial impact throughout the entire agricultural sector. This supplementary report is submitted in order to highlight areas the main report has omitted or erred on important matters.

2. Before commencing the supplementary report, Conservative members would like to thank each of the witnesses that came before committee to present evidence. The time and effort they dedicated to our study has provided all Committee members and parliamentarians a better understanding and insight into the issues affecting the agricultural industry.

1. Development of New Markets

3. The Conservative Party believes that in order to be competitive, our farmers must have access to international markets to sell their products. Time and again, the committee heard witnesses across all sectors state that opening and expanding markets is fundamental to their competitive success. Both Free Trade Agreements and Bilateral trade agreements were often highlighted as a solution for increasing competition in Canada's agriculture sector. The Committee also heard positive feedback on the Market Access Secretariat (MAS), announced in January 2009 by the Minister of Agriculture and Agri-Food, the Honourable Gerry Ritz, PC, MP. It is important to note that the details regarding the MAS are available on Agriculture and Agri-Food Canada's website.

4. The Government has been successful in negotiating many Free Trade Agreements and Bilateral agreements through a number of trade missions. However, in a minority parliament, the Government needs support from the Opposition parties to pass the legislation necessary to put the agreements into place.

Recommendation 1:

That the Government, with the support of all Opposition parties, immediately pass the Canada-Colombia and Canada-Jordon Free Trade Agreements.

5. It is important to note that the Government, in the best interests of farmers, is currently challenging several countries before the World Trade Organization. This process needs to be conducted in a manner that does not damage or strain trade relations beyond the trade irritant being disputed. Conservative members strongly disagree with the Oppositions' decision to include *Recommendation 1.4* in the main report, which calls on "the Government of Canada to create in advance a list of South Korean goods that would be subject to retaliatory trade measures." This is an extremely counter-productive recommendation.

6. The Government of Canada is challenging several countries in regards to trade restrictions and barriers that are adversely affecting the agricultural sector. None has been more adverse on the competitiveness and economic sustainability of the livestock sector than Country-of-Origin-Labeling (COOL) laws and regulations implemented by the United States. Numerous witnesses testified that COOL is negatively impacting the livelihood of the livestock industry in a significant manner.

7. The Government of Canada has defended the interests of the cattle, hog and red meat sector by launching a World Trade Organization dispute settlement process against the U.S. mandatory COOL legislation. The Government has maintained that a forthright and open dialogue with the U.S. on this issue is in the best interest of farmers on both sides of the border. Therefore, although the Committee has provided the Government significant direction within its main report, it is believed two additional recommendations should have been included within the Committee report.

Recommendation 2:

That the Government of Canada and the Minister of Agriculture and Agri-Food continue to pressure the US Administration and Secretary of Agriculture Vilsack to change COOL.

Recommendation 3:

That the Government of Canada, the Minister of Agriculture and Agri-Food and other parliamentarians, continue to lobby Congress and other interest groups regarding the long term consequences that COOL will have on the entire North American livestock sector.

8. Conservative members of the Committee are encouraged with the action the Government has taken to increase the competitiveness in the cattle processing sector, particularly by investing \$75 Million in Budget 2010. The investment includes:

- Increasing funding available under the Slaughter Improvement Program by \$10 Million to support the introduction of new, cost-effective technologies. This brings total funding for the Slaughter Improvement Program to \$60 Million;
- Targeting \$25 Million to cattle processing plants that handle cattle over 30 months of age; and
- Investing \$40 Million to support the development and commercialization of innovative technologies related to the removal and use of Specified Risk Materials (SRM).

9. Conservative members disagree with the analysis of the National Farmers Union and their proposals on how to deal with so-called captive supply and the marketing of beef. Canada is an export oriented nation and for that purpose specifically the Canadian cattle industry produces far more beef than can be consumed in the Canadian market place. Therefore, the continued export of Canadian live cattle and beef is essential to the continued success of the beef industry and no marketing limits should be imposed on Canadian beef producers.

10. In regards to captive supply, the Conservative Party recognizes that a review of the entire beef value chain is appropriate and solutions should be sought to increase competition throughout the value chain with the goal of increasing beef producer incomes. Some solutions that were suggested to the Committee during its study on competitiveness included further expanding foreign market access, reducing regulatory discrepancies between Canada and our major trading partners, beef branding

initiatives and increased competition in the global and domestic beef processing and food distribution industries that will create greater demand and higher prices for beef and live cattle.

Recommendation 4:

That the Minister of Agriculture and Agri-Food work with the cattle processing sector to develop a framework that will help the industry reduce the costs associated with the removal of SRM.

11. An element that has not been clearly addressed in the Main Report regarding competitiveness in the agricultural sector is the monopoly of the Canadian Wheat Board (CWB). The CWB is a monopolistic state trading enterprise that restricts and limits Western Canadian grain farmers and prevents them from independently marketing their own wheat and barley. The Government has always been clear that Western Canadian farmers deserve marketing freedom. This position was reiterated in the Speech from the Throne that opened the 3rd Session of the 40th Parliament.

Recommendation 5:

That the Government of Canada table legislation in the House of Commons that will give Western Canadian grain farmers market freedom.

12. Conservative members are encouraged that Opposition members of the Committee and the CWB have agreed that reform of the CWB must start with the election of directors and fully support that recommendation in the Main Report.

Recommendation 6:

That the Government of Canada table legislation in the House of Commons to modernize the process of electing Directors to the Canadian Wheat Board.

2. Competition in the Agri-Food Sector

13. In order for the agricultural sector to be competitive, the Government believes that a strong Agri-Food sector is fundamental. The Committee heard from witnesses across the Agri-Food industry on its importance to Canadian agriculture. Under Canada's Economic Action Plan, the Government has funded many initiatives through Agri-Flexibility to promote the Agri-Food sector. Some of the initiatives include: Canada Brand Advocacy, the Agri-Processing Initiative, the Renewable Energy Initiative and Bio-Economy Crop Initiative.

14. For additional information regarding Agri-Food funding, please refer to the Appendix in this respect of this report.

15. It is important to note that the Main Report discussed the prospects of deregulating the Interact debit card network. Although this issue falls under the Department of Finance, it does indirectly affect the Agriculture sector and it is worth highlighting initiatives the Government has taken with regards to this industry. As such, the Government recognizes that the Competition Bureau is an independent law agency. However, as a strong supporter of small business, we also recognize the concerns surrounding the credit and debit card industry. That's why the Government recently released a code of conduct for the credit and debit card industry in Canada. As announced in Budget 2010, that code is being made available for adoption by credit and debit card networks and their participants. To further underline our commitment to this issue and the code, the Government has also introduced legislation (*The Jobs and Economic Growth Act*, presently before Parliament) to provide the Minister of Finance with the authority to regulate the conduct of the credit and debit card networks and their participants, if necessary.

3. Agricultural Research

16. The Conservative Party understands that for the agricultural sector to continue to be competitive investment into research is paramount. That is why the Government has continued investment in science and innovation that will improve the competitive advantage of farmers in the long-term. Some of the projects undertaken include: the Growing Canadian Agri-Innovation Program, the Agri-Opportunities Program, and Canadian Agricultural Adaptation Program.

17. For additional information regarding research and innovation funding please refer to the Appendix.

18. With regards to *Recommendation 3.1*, the Office of the Auditor General (OAG) audited the Research Branch (RESB) of AAFC from April 2005 to September 2009. The OAG's intent was to determine whether the research initiatives undertaken were meeting their objectives as outlined by AAFC's Science and Innovation Strategy and the Growing Forward policy framework. The OAG concluded that AAFC was not meeting all of its strategic initiatives and proposed six recommendations in its report.

19. The Government has indicated that it agrees with the OAG's findings and has developed several initiatives which will address the report's findings, including:

- a more detailed version of Research Branch's Strategic Action Plan;
- internal and external strategies to better inform and engage staff and stakeholders in the development of its plans and activities;
- A Collaboration Management Framework and Guidelines to support effective management of partnership activities;
- a strengthened performance Management Framework to establish clear and measurable targets for national science and innovation priorities;
- an updated Human Resources plan which addresses current and future human resource requirements; and
- a long-term Capital Investment Plan to support future investment decisions and regularly assess capital assets.

4. The Regulatory Framework and Competitiveness

20. Agriculture is regulated in our country to protect animal and plant resources, our environment, and the health of Canadians. The Government believes that this measure of protection is very important, but we also need to be sensitive to the agricultural sector's need to compete in the international market place. If the approval process for regulated items does not keep pace with innovation and leading edge science, our producers will suffer long-term economic disadvantage.

21. The Conservative members believe that Recommendation 4.1 and the Oppositions' support for it is not a long-term solution for the industry because the recommendation does not drive innovation or higher productivity. The Government has taken, and will continue to take, concrete action to encourage long-term solutions to reduce the costs of SRMs. Some of the initiatives to date include:

- The Minister of Agriculture asked AAFC and CFIA to lead an Enhanced Feed Ban (EFB) working group to explore further options to reduce the financial impact of SRM. The EFB working group hopes to identify opportunities, including alternative uses of SRM, to minimize the impact of the EFB on cost-competitiveness with the U.S. At the same time, however, contemplated changes will have to be assessed against the risks posed to human and animal health, consistency with international obligations, risks to Canada's OIE "controlled BSE risk" status and market access into the U.S. and beyond.
- Budget 2010 provides additional funding of \$10 million under the Slaughter Improvement Program to introduce 'cost-effective technologies' for slaughterhouses and \$25 million to cattle processing plants that handle cattle over 30 months of age. The Government will also be

investing \$40 million to support the development and commercialization of innovative technologies related to the removal and use of Specified Risk Materials.

Recommendation 7:

The Minister of Agriculture and Agri-Food continue to pursue solutions to reduce the cost of SRMS, which are consistent with international obligations and commitment to human health and animal safety.

22. Canadians have told us that they want truthful information on food labels. They are looking for more information about where their food comes from and they want the assurance that when they see “Product of Canada” on the label, the product has been made and processed according to Canadian standards that they trust. The Government’s new guidelines provide consumers with certainty and confirmation that the Canadian ingredients in the foods they choose have been produced by our Canadian farmers and processors.

23. Under the guidelines, when a manufacturer chooses to use the voluntary “Product of Canada” label, significant ingredients, processing and labour used to make the product must be Canadian. There should be very little or no foreign content, with the exception of minor additives or spices that may not be available in Canada. Labels consistent with the “Made in Canada” guidelines help Canadians identify foods that have been ‘processed’ in Canada and ‘may’ contain some Canadian ingredients. When one buys food with one of these two labels, one can be confident that they are contributing to Canadian jobs and to the Canadian economy.

24. Although the new guidelines have been successful in ensuring that food labels are clear and understandable for Canadians, some sectors of the industry face challenges in consistently sourcing some Canadian ingredients. The Government recognizes this difficulty which Canadian food processors face. For this reason, we are consulting industry and consumers alike for their views about exempting certain specific food ingredients, such as sugar, salt and vinegar, from the “Product of Canada” guidelines.

Recommendation 8:

That the Government of Canada consult with consumers and industry leaders about the value of exempting specific ingredients from the “Product of Canada” guidelines.

25. Another important aspect of the regulatory framework that ensures that the agricultural sector is competitive in Canada is supply management. It allows our farmers to produce what the market needs. The system balances supply with demand and takes into account the cost of production. This helps farmers pay for their farms and make a decent living for their families. It provides stability to the farmer and certainty of supply and price to the processor and consumers.

26. The Conservative Party has been very clear on our strong support for supply management. We have consistently supported supply management. For example, the Government took action under Article 28 of the General Agreement on Tariffs and Trade to limit imports of low-duty milk protein concentrates through establishment of a new tariff-rate quota.

27. At the World Trade Organization, we continue to strongly defend the interests of supply-managed industries. The Government has committed to making the WTO Special Agricultural Safeguard fully operational for supply-managed goods. The WTO Special Agricultural Safeguard permits WTO members to provide enhanced stability for sensitive industries by imposing temporary surtaxes in response to sudden over-quota import surges or significant reductions in over-quota import prices.

Recommendation 9:

That the Government of Canada continue its strong support for the supply managed sector domestically and internationally.

5. Conclusion

28. In conclusion, the Conservative Party understands Canada's agricultural sectors are facing many challenges to their competitiveness. However, farmers can count on the Conservative Party and the Minister of Agriculture to put farmers first in everything they do. Whether it is marketing agricultural products internationally, supporting farmers domestically or bringing marketing freedom to grain growers, the Conservative Party of Canada will continue to stand up for our producers.

Appendix

BUDGET 2010 & CANADA'S ECONOMIC ACTION PLAN

The government would like to highlight the actions taken by the Government to help the agriculture sector throughout the recent economic crisis. In Budget 2010, the Government of Canada is:

- Investing \$75 Million to ensure that Canadian cattle producers continue to have access to competitive cattle processing operations in Canada. This includes:
 - Increasing funding available under the Slaughter Improvement Program by \$10 Million to support the introduction of new, cost-effective technologies. This brings total funding for the Slaughter Improvement Program to \$60 Million;
 - Targeting \$25 Million to cattle processing plants that handle cattle over 30 months in age.
 - Investing \$40 Million to support the development and commercialization of innovative technologies related to the removal and use of Specified Risk Materials.
- Providing \$52 Million over the next two years to support the operations of the Canadian Grain Commission. Despite the Opposition's decision to block the progress of Bill C-13 in the previous session of Parliament and deny western Canadian farmers a modernized Grain Commission, the Government remains committed to modernizing the Canadian Grain Act and the operations of the Canadian Grain Commission to address evolving needs of the sector.
- Fighting Invasive Alien Species (IAS) by providing \$38M over two years to support federal programs under Canada's IAS Strategy. The CFIA will receive approximately \$12 Million a year to support their ongoing IAS initiatives.

The Commitments in Budget 2010 build upon the strong initiatives launched through Canada's Economic Action Plan for agriculture. In the Economic Action Plan, the Government is:

- Making an additional \$1 Billion in loans over the next five years available Canadian farm families and cooperatives through the recently passed *Canadian Agricultural Loans Act*.
- Investing \$500 Million through the Agri-Flexibility Fund to proactively drive innovation, to take advantage of market opportunities, and to bring new products to market, including:
 - \$20 Million for the Livestock Auction Traceability Initiative to build a vital link in the traceability chain that tracks Canadian livestock from the grocery store back to the original farm gate;

- \$32 Million for the Canada Brand Advocacy Initiative to help the Canadian agriculture and food industry proactively capture and develop markets around the world;
 - \$50 Million for the AgriProcessing Initiative to support new technologies and agriprocessing projects that will improve the Canadian agriprocessing sector;
 - \$1.6 Million for the Grow Canola 2.015 project to develop an innovative communication system using new web technology and social media platforms to deliver relevant information to Canadian canola growers and help them increase exports, economic activity and jobs in the canola sector;
 - \$7.8 Million investment to the Canola Council of Canada to develop a comprehensive strategy that will open new markets and examine current legislative, regulatory and administrative trade barriers;
 - \$4.2 Million for the Renewable Energy Initiative that will audit and promote the use of agriculture-based renewable energy sources and equipment;
 - \$1.7 Million for the BioEconomy Crop Initiative, that will evaluate the economic and environmental benefits of crops such as fall rye, perennial grasses and hybrid willows to plant and harvest for energy generation; and
 - \$6 Million investment to help the sheep and goat industry.
- Investing an initial \$50 Million for the Slaughter Improvement Program to improve competitiveness through investments in new technologies and processes. This includes:
 - \$9.6 Million to Levinoff-Colbex – a Quebec beef packer- to help improve the long-term profitability of eastern Canada’s largest culled cattle slaughter plant;
 - \$10 Million to Keystone Processors Ltd. – a Winnipeg processing company - to upgrade a beef processing plant and to open new markets for Manitoba beef producers.; and
 - \$2.7 Million for Écolait Ltée to install state-of-the-art equipment to upgrade its slaughter and processing facility.
 - Investing \$25.9 Million for the Modernizing Federal Laboratories program to update eight facilities, providing long-term economic benefits for farmers and an immediate economic stimulus.
 - Investing \$123,000 for New Brunswick potato farmers to capture new markets and increase profitability by investing in a new market information database.
 - Investing \$2.2 Billion to support industries and communities. This will help create job opportunities in all parts of Canada that have been hit hard by the economic downturn. It provides support for affected sectors, including agriculture.

TRADE AND MARKET ACCESS

The Minister of Agriculture is very active in opening new markets around the world. The Government of Canada is:

- Leading trade missions initiated by the Minister of Agriculture to Washington, Mexico, Cuba, Russia, Japan, Hong Kong, India, Morocco, Jordan, Saudi Arabia, UAE, Peru, Colombia, Uruguay, Guatemala, and the European Union to open and expand market opportunities for Canadian farmers and exporters. During these trips, the Government has:
 - opened beef markets in Colombia, Jordan, Saudi Arabia and Russia;
 - expanded key export opportunities for Canadian beef in Hong Kong;
 - signed an agreement to expand Canadian pulse crop exports to India;
 - secured an agreement with China to re-open its markets to Canadian pork;
 - regained full access for Canadian beef to the key export market of Hong Kong; and
 - signed an agreement with Sinograin to increase Canadian canola oil imports to China by an additional 200,000 tonnes, for a total of 350,000 tonnes in 2010.
- Signing and concluding Free Trade Agreements with EFTA (Switzerland / Liechtenstein / Iceland / Norway), Peru, Colombia and Jordan.
- Negotiating Free Trade Agreement negotiations with many trading partners including with the EU, Panama and the Canada-Central America Four Countries (El Salvador, Guatemala, Honduras and Nicaragua).
- An active participant in the WTO negotiations to:
 - eliminate export subsidies;
 - reduce trade-distorting domestic support; and
 - increase market access.
- Strongly supporting supply management at the WTO and EU FTA negotiations. The Government has:
 - Taken action on Article 28 under GATT to limit imports of milk protein concentrates;
 - Committed to bring into force the WTO Special Safeguard; and
 - Established cheese compositional standards to ensure that real milk is a key ingredient in Canadian cheese.

- Continuing to defend the interests of the cattle, hog and meat sectors by launching a WTO dispute settlement process over the U.S. mandatory country-of-origin labelling (COOL) legislation and by maintaining a frank and open dialogue with the U.S. on this issue in the best interest of farmers on both sides of the border.
- Reinforcing the safety of Canadian pork while dealing with H1N1 and restoring market access across the world for our pork producers including the Chinese market following Prime Minister Harper's trip to Beijing in December 2009.
- Continuing to push Korea to open its market to Canadian cattle. The Government has filed a second request for the establishment of a WTO settlement panel regarding Korea's measures blocking the importation of bovine meat and meat products from Canada.
- Coordinating government and industry efforts to open and expand markets through the recently created Market Access Secretariat.
- Promoting Market Access by launching the Trade and Market Development Program, including \$88 Million for the AgriMarketing initiative.
- Kickstarting the Canada Brand Initiative in Japan with an initial investment of \$1 Million.
- Investing \$1.2 Million to increase sales of Canadian dairy genetics in international markets through the AgriMarketing program.
- Investing through the Canadian Agriculture Adaption Program of up to \$900,000 over five years to support the Scaling-up Organics Initiative to help the Certified Organic Associations of BC implement a new and comprehensive market development strategy.
- Investing an \$118,000 to the Organic Trade Association under the Agri-Marketing program to remain ahead of international market trends, developing promotional materials, and building a long-term international strategy for the organic sector.

HELPING THE LIVESTOCK SECTOR

The Government of Canada is:

- Investing \$75 Million in Budget 2010 to improve slaughter capacity in Canada and to help the livestock sector cope with SRM removal costs.
- Delivering a comprehensive restructuring plan for pork producers, which includes:
 - \$17 Million for the International Pork Marketing Fund;
 - Long-term loans with government-backed credit that financial institutions can offer to allow viable hog operations to restructure their businesses; and
 - \$75 Million for the Hog Farm Transition Program.
- Increasing Advance Payments Program amounts to \$3.3 Billion.
- Increasing emergency advances from \$25,000 to \$400,000 with \$100,000 interest free.
- Increasing access to payments to producers through the Targeted Advance Payments.
- Paying out \$1.5 Billion for livestock producers through new and existing programs.
- Paying out \$76 Million to combat disease and enhance prosperity and stability in the hog sector.
- Paying out \$50 Million for a Cull Sow program to reduce breeding herds in the hog industry to align it with the market.
- Implementing tax deferrals for farmers affected by drought and flooding.
- Investing \$6 Million to the Canadian Cattlemen's Association to lead a National Beef Research Cluster.

GROWING FORWARD AND BUSINESS RISK MANAGEMENT

The Government of Canada is:

- Implementing responsive and flexible programs in consultation with farmers, provinces and territories.
 - Delivering regional and flexible Growing Forward programming with the federal, provincial, and territorial governments of \$1.3 Billion cost-shared over five years.
 - Investing an additional \$1.05 Billion in federal-only programming through Growing Forward.
- Implementing Business Risk Management programming that farmers can count on including:
 - AgriInvest – provides a matching government payment to a producer account. This program was “Kickstarted” with an investment of \$600 Million announced in December 2008 to help producers start their accounts.
 - As of March, 2010 - \$523 Million has been paid out in AgriInvest payments with over \$553 Million in the bank accounts of producers.
 - AgriStability – provides payments when farmers experience large margin declines.
 - As of March, 2010 - \$1.5 Billion has been paid out through Agristability.
 - AgriInsurance – supports a farmer when they experiences production losses.
 - As of March, 2010 - \$2.4 Billion in indemnities has been paid out in AgriInsurance.
 - AgriRecovery – rapid assistance for producers hit by regional disasters.
 - As of March, 2010 - \$71 Million has been paid out through AgriRecovery.

SCIENCE AND INNOVATION

The Government of Canada is:

- Investing \$158 Million for the Growing Canadian Agri-Innovations Program turning new ideas and technologies into viable market opportunities;
- Investing \$134 Million for the Agri-Opportunities Program bringing new products, processes and services to the marketplace;
- Investing \$8.4 Million for a world-class greenhouse facility at the Eastern Cereal and Oilseed Research Centre in Ottawa;
- Investing \$2.3 Million in funding under the Developing Innovative Agri-Products initiative for Canadian Tree Fruit Products Development to enhance and accelerate the commercialization of new high-quality apple and sweet cherry varieties;
- Investing \$3.9 Million in Developing Innovative Agri-Products funding for the Flax Council of Canada to develop non-genetically engineered herbicide tolerant flax;
- Investing up to \$1.9 Million in national Canadian Agriculture Adaption Program funding to analyze the GM in flaxseed situation with the EU and to develop a method that can be used for seed testing and for determining the likely source of contamination by isolating flax genomic sequences; and
- Investing \$14.5 Million to bring together the best scientific expertise for a Canola Cluster to focus research and innovation on three areas: oil nutrition, meal nutrition and production, to enable the industry to expand the profile of canola oils as a healthy oil while increasing the value of the meal.

Bloc Québécois Supplementary Opinion

to the Report of the Standing Committee on Agriculture
and Agri-Food entitled *Competitiveness in Agriculture*

tabled to the Standing Committee on Agriculture and
Agri-Food

April 29, 2010

Most of the recommendations in the report reflect the opinions, arguments and requests formulated by the many witnesses who participated in the Committee's study on agricultural competitiveness. The Bloc Québécois therefore supports the report's general thrust, while deploring the fact that it was only tabled nearly a year after the study began, because of the prorogation of Parliament imposed by the Conservative government for purely partisan reasons.

“Competitiveness” is often assumed to be about market liberalization and deregulation. In Quebec, the agricultural sector in particular, but also the public at large, is increasingly aware that liberalization and deregulation can backfire. That is why food sovereignty has become an unavoidable issue when improving competitiveness is on the agenda.

Food sovereignty is a nation's right to choose its own agricultural orientations, the policies that define them and the means it considers most appropriate for implementing them. The concept is supported by the United Nations. In March 2009 Olivier De Schutter, the United Nations Special Rapporteur on the Right to Food, submitted a favourable report on it to the Office of the High Commissioner for Human Rights. In his report, Mr De Schutter made four recommendations, one of which calls for States to have the ability to protect their local markets from market volatility and sharp rises in imports through supply management and collective marketing, which have an important role to play when this approach is taken.

The developed countries should not be obliged to choose between sound management of their agricultural resources, respect for their products, land and living things, and freer markets. Some governments oppose the principle of food sovereignty in the name of respect for the trade treaties they have signed. Is the principle absolutely incompatible with the treaties? Must we necessarily withdraw from the WTO or become 100% protectionist just because we want everyone to have enough to eat, and countries (sovereign by definition) to freely choose their own agricultural policies? We think not.

The Bloc Québécois favours the opening of borders to international trade. Quebec, as a trading nation, needs this access to the world, without which our leading-edge industries could not prosper. But for trade to be mutually profitable, it must first and foremost be fair. A trade system that leads to exploitation in poor countries and dumping in rich ones is not viable. We cannot accept free trade that would result in levelling down.

It is important not to conflate food sovereignty and hard-line protectionism. The Bloc Québécois is not defending this interpretation of food sovereignty. To decide how best to promote food sovereignty, it is important to grasp the nature of the problems that this vision of agriculture is attempting to solve. By understanding more fully why various groups want to promote it, we can more easily find effective and realistic measures for incorporating it into the development of our agricultural policies. When we tackle solve problems at their source in this way, we not only avoid long and costly legal wrangles at the World Trade Organization, but also protect our economy by not imposing pointless regulations that would complicate trade without solving the fundamental problems that concern us.

On the federal scene, the concept of food sovereignty can take the form of defending and promoting supply management to international trade bodies; supporting organizations that work to develop local and collective marketing; supporting the approach of the Government of Quebec, which is implementing a system for managing local products; accelerating regulations

on organic products; and encouraging federal institutions to implement a policy of buying locally. Competitiveness is about these things too.

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