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Mr. Paul Steckle

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•(1110)

[English]

The Chair (Mr. Paul Steckle (Huron—Bruce, Lib.)): Ladies and gentlemen, we must begin our meeting.

This morning we want to continue with the main estimates, 2004-2005, dealing with the matters regarding votes 1 and 10 under the Department of Agriculture and Agri-Food on the Canadian agriculture income stabilization program, otherwise known as CAIS.

We will take our witnesses in the order that they are listed. We have Mary Komarynsky, assistant deputy minister, farm financial program branch. We again have with us, Danny Foster, acting director general, farm income and adaptation policy; and Michele Taylor, perhaps appearing for the first time, who is managing director, executive division, farm income programs directorate.

As is normal, we will have you make your presentation within a 10-minute period, if you can. We will then proceed with questions on the matter of CAIS. So if we are ready to go, we will proceed.

Mary.

Mrs. Mary Komarynsky (Assistant Deputy Minister, Farm Financial Programs Branch, Department of Agriculture and Agri-Food): Thank you, Mr. Chairman.

We are pleased to accept the committee's invitation to discuss the Canadian agricultural income stabilization program, more often referred to, as you know, as CAIS.

I understand Danny has responded over the past few days to some of the questions on CAIS when we were here to discuss the strategy to reposition the Canadian cattle and beef industry. Minister Mitchell as well responded to some questions.

One component, as the committee knows, under the Ag Canada policy framework is business risk management programming. When developing the new business risk management programs, ministers of agriculture agreed on key principles that would be the foundation for all of these programs.

First, these programs must conform with Canada's international trading obligations and should minimize the risk of countervail. They would be developed in conjunction with stakeholders, including farmers and their respective farm organizations. Producers would participate actively in sharing business risks. In addition, the programs have to be developed with the concept of providing income stabilization as well as disaster protection for the whole farm. The programs were to be predictable and were to make it easier for producers to make long-term plans. In addition to the key principles,

ministers also agreed that programs must target those with the greatest losses, treat producers equitably across Canada, and not influence producers' production and marketing decisions. These principles were fundamental to the design of the CAIS program and will guide any future program changes.

As you are aware, CAIS was officially launched this past December with the signing of the implementation agreement for Ontario. Today all provinces as well as the Yukon Territory participate in the program. CAIS represents a long-term commitment by governments that for the first time responds to producers' needs for a comprehensive program that effectively protects farmers against both small and disastrous drops in farm income. It is also an integrated program that meets producer requirements for stabilization and disaster assistance. Two third-party reviews concluded that CAIS does a better job of stabilizing producer farm incomes across commodities than the programs it replaced.

To date, as our minister indicated this week, over 119,000 producers have signed up for the 2003 program year, protecting more than \$7 billion in margins. This includes over 13,000 producers in the province of Quebec, which has just started to report its statistical information. Over 132,000 producers have signed up for the 2004 program, protecting \$8.5 billion in margins. Over 85,000 producers have now submitted the required information to process their final 2003 CAIS payments. To date, we have paid out to over 18,000 producers in excess of \$280 million. Our peak processing period is just beginning.

•(1115)

[Translation]

As you know, at the Ministers' Annual Meeting in September, ministers agreed to extend the simplified one-third deposit requirement for 2004. Authority is also being sought through agreement with the provinces, to allow producers who previously made a full deposit, to withdraw any amount of the one-third requirement from their CAIS account.

Ministers also agreed to extend the application deadline for the 2003 and 2004 program years to November 30th, 2004, and the deposit deadline to March 31st, 2005, for all provinces except PEI and Ontario.

Ministers also reaffirmed that active risk management is an important principle of the APF. For the longer term, officials have been tasked with developing alternative mechanisms in response to industry concerns about the deposit requirements under the program.

[English]

In order to improve the CAIS program responsiveness during these very difficult times for producers, governments agreed to increase the level of interim payments for 2004 from 50% to 70% of producers' estimated payment. For those who have received interims at the 50% level, top-up cheques will soon be issued. Applications for the 2004 interim payments were available in July in order to allow producers early access to CAIS benefits. To date, all provinces will offer interims for 2004, except Ontario and P.E.I.

A CAIS special advance payment has also been made available for 2004 to cattle and specified ruminant producers impacted by the current BSE situation. The special advance consists of \$100 a head, based on inventories as of December 23, 2003. The 2004 CAIS special advance payments are now available in all provinces except Alberta, which is offering a different advance, and Ontario, which has yet to decide on the specifics of the advance. In addition, New Brunswick and P.E.I. have not yet officially advised on whether they will fully participate in offering the advance.

To date, over 6,000 producers have already applied, and advance payments started to go out during the week of October 25. Having extended the application deadlines until the end of this month, this allows time for producers who have not already done so to sign up for the program. Our program experience demonstrates that a large portion of the program applications tend to arrive within the last two weeks before the deadline.

Because CAIS is a permanent program, much effort can and is being placed on establishing the appropriate processes for continuous improvement. These processes will include, among other things, the annual review that the minister responded to on Tuesday; ongoing monitoring of operations and making recommendations for improvement by a national CAIS committee composed of producers and government officials; surveying of producer program awareness and satisfaction to identify areas where improvement is needed; and ongoing consultation by the minister with his National Safety Nets Advisory Committee.

• (1120)

[Translation]

In all cases, this process involved consultations with stakeholders, with the goal of ensuring that the program continues to comply with the underlying targets and principles of the APF, and improves in its ability to respond to the needs of producers.

[English]

Mr. Chair, that is the end of my opening remarks.

We have handed out a presentation on CAIS. As you will recall, in the last session we went through a presentation on what CAIS is, what its objectives are, and what it does not do. This presentation is very similar to the one we did last year. However, there are some new members of the committee, and for their benefit we could either touch on some highlights—it does go into some of our processing

standards—or we could offer, Mr. Chair, if committee members would like, a separate briefing at another time. We would be more than willing to do that.

The Chair: Your comments will rest at that. There is no one else to speak at the moment.

I think we will commence the question period. If members want to refer to the briefing you gave us this morning in terms of how it impacts our program for this morning, they're at liberty to do that as long as we stay on CAIS this morning. I admonish my members to stay on this program and not to deviate into other areas. I think there's enough there.

We'll try to make the time to allow us all to have some time for questioning.

Mr. Ritz is first for seven minutes.

Mr. Gerry Ritz (Battlefords—Lloydminster, CPC): Thank you, Mr. Chair.

Thank you, ladies and gentlemen, for your presentation.

In regard to the development of CAIS, would it be possible to get from you a full list of the membership on the safety nets committee, both at the start of the development of CAIS and showing who sits on it today?

Mrs. Mary Komarynsky: I assume you are referring to the minister's national safety net advisory committee.

Mr. Gerry Ritz: Right.

Mrs. Mary Komarynsky: I don't have the names with me today, but I can definitely provide them to you.

Mr. Gerry Ritz: That would be very helpful. As I understand it, groups like CFA and APAS from Saskatchewan are represented on that committee. Both of those groups are now condemning the cash-on-deposit portion, and I'm wondering why the change. Were they not listened to, to begin with? Have they always held that view, or have they come to be called by their producers as much as we have been on the legitimacy of a cash-on-deposit type of system?

Mr. Danny Foster (Acting Director General, Farm Income and Adaptation Policy, Department of Agriculture and Agri-Food): I wasn't around for the startup of CAIS, but—

A voice: Lucky you.

Mr. Danny Foster: —I know the reaction from the industry was as a result of industry consultations we undertook in August of this year, 2004, across the country.

When we launched CAIS there were concerns about the amount that had to be put on deposit. There were concerns expressed about the fact that it was tying up working capital, etc.

Ministers agreed, based on that, that the deposit requirement for the first year of the program would only be one-third of what was normally required and that the study of the whole deposit element of the program would be rolled into the annual review process.

Given that the annual review process was delayed in starting up, we undertook as a department, with the provinces and in consultation with the minister's national safety net advisory committee, an industry consultation process that took place across the country. What you're hearing is the result of that industry consultation process from August 2004.

Mr. Gerry Ritz: Thank you, Mr. Foster, but that's after the fact. I'm talking about the beginning. The whole concept that someone would have to put money on deposit to qualify for an emergency program is just redundant, in the politest terms I can use.

Would it be possible to see minutes of meetings, and so on, where that was discussed?

• (1125)

Mrs. Mary Komarynsky: Yes. We can provide them. Unfortunately—and I apologize to the committee—all three of us were, as Danny mentioned, not part of the original consultations. We will go back, pull out the minutes, and provide them to you.

Mr. Gerry Ritz: Thank you.

I'll turn it over to my colleague.

The Chair: Mr. Anderson.

Mr. David Anderson (Cypress Hills—Grasslands, CPC): Thank you, Mr. Chair.

One of the issues has been that producers with NISA accounts have moved their money across, and then rather than just taking a third of the deposit, you've kept 100% of the deposit.

Are you confused about what I'm saying?

Mrs. Mary Komarynsky: No.

Mr. David Anderson: I didn't hear the first couple of sentences when you switched to French, but you talked about a third of the deposit. Has that changed?

Mrs. Mary Komarynsky: What ministers agreed to in P.E.I. this September is that we will proceed with an amendment to the implementation agreements, which, once ratified by seven provinces, would allow producers to take back the two-thirds of the deposit they've already put in. What I indicated in my opening comments, and what Danny has reiterated, is that the one-third deposit for the 2003 year is going to be extended for the 2004 year. For those producers who have made a full deposit, we are proceeding with amendments to allow them to take back the additional amount.

Mr. David Anderson: There's some urgency on that for a second reason as well, and that is that the money that comes out of NISA is taxable, of course. These folks are tied up. Money has been tied up on them. They're ending up having to pay tax on money that comes out of NISA and not being able to access that two-thirds of the deposit money that they need. So I'd urge you to do it as quickly as possible—before the end of the year, for sure.

The other day we were told that CAIS's administrative costs were just over \$500 per file. Most farmers I'm talking with are being charged between \$500 and \$1,000 by their accountants as well. I'm wondering how you can justify a program that's so complicated that it's costing this kind of money to administer, both through your organization and then at the ground level as well.

Mrs. Mary Komarynsky: First of all, we know a large percentage of producers use accountants. If you look in your presentation you will find there are a number of forms that are required. One of them is a tax form that goes to the Canadian revenue agency. Then there's supplementary information that is required.

The majority of producers use accountants for filling out their taxes. We know it's the first time, for many producers, that they have to provide some of the supplementary information that is required. It would be easier for those producers who were in the previous program, the Canadian farm income protection program, where that supplementary information was required, to fill it out.

We understand that in the first year of the program, as a producer establishes his database for the information that is required for us to determine what kind of income payment needs to be made, there is a demand on producers to build the beginning of their information, so that in the next years they can update it.

Mr. David Anderson: We're into the third program where people have had to basically continue submitting a lot of the same information, with AIDA, CFIP, and now again. It just gets more and more complicated; it's not getting simpler for producers.

Mrs. Mary Komarynsky: We're into the third program, that's correct, but if you look at the Canadian farm income protection program—that's the one prior to CAIS that provided income support where we had large drops in income and it was thus disaster support—the majority of producers who are currently in CAIS did not participate in that CFIP program. As a result, we recognize that given the number of producers now coming into the program, where you have both the stabilization tier and the disaster tier, a large number of producers will have to establish a database or information that will then provide them with the information required by the program.

Mr. David Anderson: I understand that, because I've gone through all of that material.

Do I have a couple of more minutes?

The Chair: One minute.

Mr. David Anderson: I would like to switch over. The disaster relief component of the CAIS program is considered green under WTO. Are your income support programs considered amber, as I understand? That will potentially allow countries like the United States to initiate countervailing duties in later situations.

Have you examined scenarios to see, if the U.S. opens its border to live cattle and then imposes countervailing duties on our cattle going down there because of the CAIS program, what the results and consequences of it will be?

• (1130)

Mr. Danny Foster: We haven't specifically examined that scenario. What we've been trying to do as much as possible in the design of the CAIS program is minimize the risk of a successful countervail action against CAIS. That's why it's been based on a whole farm concept.

Mr. David Anderson: You need to look at that scenario because of the United States' history in trade and agriculture, especially in the last few years. It needs to be done.

The Chair: Thank you. Your time has expired.

We'll move on to Madame Poirier-Rivard.

[*Translation*]

Ms. Denise Poirier-Rivard (Châteauguay—Saint-Constant, BQ): Thank you, Mr. Chairman.

The Canadian Agriculture Federation and Union des Producteurs Agricoles du Québec would like the government to stop requiring the deposit of the producer's contribution. The Federation is saying that farmers have to use their operational credit margin and must borrow through their financial institutions in order to make their deposits. As you can imagine, because of that, part of the money you deposit into the program goes back to the financial institutions as interest charges. According to the Federation, \$40 to \$50 million would go back every year to the banks this way.

Mrs. Komarynsky, Quebec producers have no credit margin. Recently, six cow-calf operators in Abitibi, where we will be going tomorrow, have given the keys of their farm to their financial institution. Several producers are on the verge of bankruptcy. Do you think that your program is efficient? If so, what do you say to those six cow-calf operators who had to give up their farm?

[*English*]

Mrs. Mary Komarynsky: Thank you very much for the question. What CAIS does essentially is if a producer has a drop in income below his referenced margin, CAIS will pay out. The deeper the loss between the production margin, or what a producer makes in a year, versus his reference margin, the greater the share the government puts into the program. The program has been designed to deal with both small and large drops in income, and depending on the amount of drop, the government's share is greater.

With regard to the producers who have had to pay interest in terms of putting in the deposits, I would make two comments there. I would go back to the comment made by Danny Foster where he indicated that after the consultation that was done this summer, ministers have now asked us to look at a replacement for the deposit options.

As well, what I'd like to say, and I'll ask Danny if he wants to add any comments, is when we were looking at the deposit options and how it should be done, there were a number of options that were looked at. One of them was a letter of credit, where the bank would issue a letter of credit and that would help save interest for the producer. It was found that the cost of being able to issue a letter of credit was a lot higher, would add administrative costs to the program, and would not be an effective tool in terms of a deposit requirement or the producer's share for the program.

Mr. Danny Foster: The only other thing I would add is that clearly the ministers have heard the recommendation from the industry on the elimination of the deposit and have directed officials to develop alternative mechanisms. Our minister very much wants to see that annual review process up and running as quickly as possible, and anything that comes out of the officials' review on the alternative mechanism could be rolled into the annual review. So the message has been heard and we're responding to it.

In terms of the deposit requirement itself—the cost of the deposit and the interest costs—we've done studies, and it can range anywhere from zero to 2%. There have been some innovative

mechanisms put in place to help producers make that deposit. ACC Farms Financial in Ontario, for example, has an arrangement with the Bank of Montreal where producers can make the deposit. I think the net interest cost is 1%. So there have been things happening with respect to the deposit requirement, but nevertheless I think it's safe to say that ministers have directed officials to develop an alternative mechanism, and we will roll that into the annual review process depending on what comes out of the recommendation of officials.

[*Translation*]

Ms. Denise Poirier-Rivard: The administrative cost for the contribution deposits is \$14 million. If you add to that amount the \$40 to \$50 million that go back to financial institutions as interest charges because of the deposit requirements, do you believe that this element of the program contributes to stabilizing farm income in an efficient manner? This is a lot of money that doesn't go into the pockets of farmers.

• (1135)

[*English*]

Mrs. Mary Komarynsky: What I can only say, to go back to what Danny just said, is that after our consultations—and I think we've been quite open in saying that producers have indicated that the current deposit requirement does not really do what it was intended to do—ministers have directed officials to look at alternative mechanisms for active participation in managing business risks. I think there has been a commitment by ministers in September to find alternative mechanisms, and that is the work that officials currently, as I indicated in my opening remarks, have been asked to undertake.

[*Translation*]

Ms. Denise Poirier-Rivard: So, do you believe that this is a sufficient reason to change the program?

[*English*]

Mrs. Mary Komarynsky: I'll be very frank. In any new program, whether it's CAIS or any other program in this department or in any other department, once you actually get a program up and running, it is quite normal in the first year of operation that you will find there need to be some adjustments. I think the findings of the consultation on deposit options is one of them.

As in my opening remarks—and the minister talked about the annual review—the annual review that will be done is really to look at not only business risk management programs but all programs to determine whether the ones that are now currently up and running are actually meeting the policy objectives that were established in the AG policy framework. Within our own operations I think there are always improvements that can be made in how we actually deliver a program. As I indicated, we have ongoing monitoring. We have discussions on a regular basis with our provincial colleagues as to where we can make improvements even within the current program parameters.

The Chair: Time has expired. That was a quick seven minutes.

Now we move to Mrs. Ur for seven minutes.

Mrs. Rose-Marie Ur (Lambton—Kent—Middlesex, Lib.): I thank you for being here again. We certainly have many questions on CAIS, and it's good to have you here once again.

Reading through the estimates on page 8, in the area that's highlighted in blue, it says here:

To address issues, such as gaps in coverage and the equity and fairness of established programs in different parts of the country, new business risk management programs are being put in place to provide equitable treatment for producers of all commodities.

The way I read it, is this really an admission that existing programs are inequitable?

Mrs. Mary Komarynsky: No. The way that sentence was intended was that the current programs, the business risk management programs, both CAIS and production insurance, are actually trying to close some of the gaps and possible overlaps we had in previous risk management programs. Let me give you an example.

The NISA stabilization program—what we had prior to CAIS was NISA, and we had the Canadian farm income protection program—was based on eligible net sales in terms of the deposits that were made into the funds for producers. So there was a formula for the amount that went into account. For the farm income protection program, that was based on a reference margin.

So you had two separate programs working together, one trying to deal with stabilization, the other one with disaster. It's possible that—I can't think of an exact example and I'll ask Danny—if you have two separate programs, there are some gaps as to what can be covered and who gets covered, given that not all producers were in CFIP and you might have had some overlaps. CAIS actually integrates some of the features of those programs. A producer has access to stabilization as well as disaster, depending where he or she falls in any year and if the program is needed. That is a key feature—response to need. The program then is based on national criteria, how you determine the income that will be paid out to the producer.

• (1140)

Mrs. Rose-Marie Ur: I have a lot of questions here, but I thank you for that.

Ontario administers the CAIS program, but it's moving to AgriCorp. Can you tell me the number of people working on CAIS programs and their actual budget?

Mrs. Mary Komarynsky: I don't have that information.

Mrs. Rose-Marie Ur: I was told there are about 850 people. Maybe you can get that information to us.

Do you know the job requirements, or what those individuals are expected to complete per day? Is there a job requirement as to three applications, four applications?

Mrs. Mary Komarynsky: Perhaps I could ask Michele Taylor to talk about our service standards.

Mrs. Rose-Marie Ur: I want to know on CAIS.

Mrs. Mary Komarynsky: Yes, CAIS service standards.

I'll turn this over to Michele.

Ms. Michele Taylor (Managing Director, Executive Division, Farm Income Programs Directorate, Department of Agriculture and Agri-Food): This is for where Canada delivers. This is not for the Ontario administration that delivers CAIS.

Mrs. Rose-Marie Ur: I'm looking for Ontario.

Ms. Michele Taylor: I can't provide that for Ontario.

Mrs. Rose-Marie Ur: Can you provide it to the committee down the road?

Ms. Michele Taylor: Yes.

Mrs. Rose-Marie Ur: That's fine.

Going through numbers, apparently it's \$84 million a year for CAIS administrative costs and another \$14 million for administrative costs for contribution deposits, plus another \$40 million to \$50 million that the banks receive for interest. If you add all that up in round numbers, it comes to \$150 million, roughly. I think when the minister was here the other day he alluded to the fact that in 2003 producers were paid \$280 million. That's almost half of what the producers are getting.

My question is this. This stabilization for agriculture, is it actually stabilization for agriculture or for the banks? I'm not anti-bank, but if we're having all these kinds of dollars float around, it appears that the farmers aren't getting their fair share.

Mrs. Mary Komarynsky: I'll ask Danny to comment on anything to do with the banks, but in terms of fair share, what I said—or perhaps it was the minister on Tuesday, and I apologize that I can't remember. We said that for the 2003 CAIS program we are estimating that the program will pay out between \$1.2 billion to \$1.5 billion this year—and I mean the program year, not the fiscal year. As we continue to adjust our forecast, because as applications come in and we start processing, our forecasts become more refined, we're closer to the \$1.4 billion for 2003 CAIS.

Our administrative costs for 2004-05, which will be some of CAIS 2003 and also some of CAIS 2004, are projected to be \$87 million nationally for CAIS administration. And these are the costs nationally, whether it's Ontario delivering or a federal delivery for the six provinces.

In terms of banks, do you have any other comments, Danny?

Mr. Danny Foster: Yes.

All I can add is in terms of the current CAIS accounts, we have approximately \$600 million. If that money was in for a year, assuming a net interest cost of about 1% to 1.5%, you'd be talking about \$6 million to \$9 million in terms of interest costs. But also keep in mind that we've extended the deadline several times for the deposit requirements such that producers don't have to put that money in until, as of now, March 31, 2005.

A large number of producers haven't made any deposit and they won't need to make a deposit until March 31, 2005, and this includes producers who are triggering payments for 2003. So they can get their payment and they can use part of that payment actually to make the deposit and secure coverage for 2004.

The Chair: I'm sorry, we've exhausted the time, but just to elaborate—perhaps to you, Ms. Taylor—I think the intent of the question to you would have been that there are quotas per day established for those people who do CAIS applications. What is the quota? What is the average number of applications done per day? Because we have some background knowledge in this case we want to know what you know about that. I think it would be helpful for this committee to know how productive those people really are in Guelph.

I'm talking about the people who are reviewing the applications as they come forward for the CAIS program.

• (1145)

Ms. Michele Taylor: I can only give you those numbers for where Canada delivers today, and that's in six provinces and one of the territories.

Our average number of files today depends on where in the process the employee or the staff member sits. We split our process into three areas. If you're in the first part, which is basic data assessment, you're expected to process a minimum of eight files a day. If you're in what's called triage, which requires a closer look at the file, you're expected to process five files a day. If you are in the final section, targeted verification, you're expected to process ten files a day. Part of the reason is in the beginning part, where they're only processing three, there's quite often producer contact, so on average it's three per day.

Our target for where Canada delivers, for the administration, is 500 files a day, 2,500 files per week.

The Chair: Thank you.

Now we go to Mr. Angus for seven minutes.

Mr. Charlie Angus (Timmins—James Bay, NDP): Thank you, Mr. Chair.

I would like to follow up on that. I have been phoning home because I don't get home enough. I was talking to our producers. Many still haven't received CAIS letters or they've had CAIS letters of rejection. They don't know what the status of their files is.

I wonder if you could provide for the committee the numbers on how many CAIS applications there would have been over the last three years and on what the rejection rates are this year compared to other years. I'm wondering, if we're getting a bottleneck, if it's just a standard response of bureaucrats to put through a lot more rejections so they can keep up with their quotas.

Would we be able to see those numbers? Would you be able to comment on whether we're having a higher rate of rejection this year than last year?

Mrs. Mary Komarynsky: Perhaps I can begin to address your question.

First of all, this is the first year of CAIS, so if you are asking what the rejection is in CAIS versus CFIP, to be honest, it would be like comparing apples and oranges. But I can tell you that to date—and I remind the committee and the member that at this point we've processed only a portion of the applications—the percentage of

producers who are receiving zero payments where Canada delivers is ranging around 43%.

The question should be, why is that? There are a number of reasons. First of all, recall what the intent of CAIS is: to supply income stabilization, or, if a disaster payment is triggered, to bring producers up to their reference margin. In some cases some of those producers out of that 43% would not have had a drop in income. There are some who have not.

Second, the CAIS program is based on a whole farm approach. If a producer is diversified in that he or she grows more than one crop or has different types of production, the whole farm approach means that if producers don't do well in one segment of their business but the other segment has done well, then the production margin may actually be quite high and may not trigger a CAIS program. It's a whole farm approach. We look at all of the production as a farm rather than by individual commodities, and that's how the CAIS benefits are calculated.

Mr. Charlie Angus: What if a farmer is holding onto inventory because the prices are so low? Will he trigger CAIS if he has not been selling cattle over the last year?

Mrs. Mary Komarynsky: You've asked two questions. The first is the question to do with inventories and the second is the question about how cattle producers are doing in CAIS this year.

Once again, based on approximately 7,000 processed applications, we're finding that approximately 70% of cattle producers are triggering CAIS payments. Depending on the number of cattle the producer has—anything from one to ten head to over 500 head. We've done some analysis, and depending on where you are and the number of cattle you have, the percentages for who is triggering and who is not differ. Currently, in what we've processed so far, it's 70%.

In terms of inventory, the CAIS program is based on income. It assumes that if you have inventory, you have sold some of that inventory and that's your revenue. CAIS does not trigger a benefit if the cattle has been unsold because CAIS calculates inventory by using your beginning and end inventory based at year-end market prices.

• (1150)

Mr. Charlie Angus: That was my understanding. To me then, a number of the people who need CAIS the most, or need help, are not getting it because they haven't been selling cattle because the prices are just abysmally low and they aren't changing. They aren't triggering CAIS, and I don't see what else is out there for them.

My time is ticking away here. We talked about the question of the deposit this morning, and we understand that the department is onside with finding alternative mechanisms.

I have two questions. When is this review going to be completed, and how soon will we see a move to removing the deposit?

Mrs. Mary Komarynsky: The minister has asked us to begin immediately, so work has begun. We anticipate that some of the findings will be done by the end of the calendar year.

As the minister indicated on Tuesday, the committee or the annual review process will determine whether or not the review of the options that officials have come out with would be part of the annual review. The minister also responded on Tuesday that the outcome of the annual review would be presented to ministers at the annual conference in June.

Mr. Charlie Angus: So we'll have a decision in June?

Mrs. Mary Komarynsky: I can't say that. It's not for me to say, to be frank. But I think the minister responded that the outcome of the findings of the annual review would be presented to ministers in June.

Mr. Charlie Angus: I have another question.

What's the deadline, then, for people who have to borrow money to get into CAIS for next year?

Mrs. Mary Komarynsky: You're asking about 2004?

Mr. Charlie Angus: This coming year, yes.

Mrs. Mary Komarynsky: The current deadline for the deposit requirement is March 31, 2005.

Mr. Charlie Angus: So they would have had to borrow money, but then perhaps two months later the deposit requirement might be removed?

Mrs. Mary Komarynsky: That's a possibility.

The Chair: Thank you, Mr. Angus.

We'll go to Mr. Bezan for five minutes.

Mr. James Bezan (Selkirk—Interlake, CPC): Okay. We're saying that the first annual review won't happen until we're into the third year of the program to know whether or not it's working and what changes have to be made?

Mrs. Mary Komarynsky: Well, we're actually in the first year of the program.

Mr. James Bezan: Well, we'll be in 2005 when we're going to make changes to the program to make it effective for producers.

Mrs. Mary Komarynsky: But there have already been changes made. As I indicated in my opening comments and in the presentation that's been handed out to you, a lot of changes have already been made to the program—for example, deadline extensions to allow producers to come in. On the interim payments for 2004, we moved the deadline or the availability of interim payments up to July to allow producers to come in and access an increased percentage. I indicated that interim payments were originally 50%. We've increased the interim payments to 70%. The CAIS special advance is also in response to producers having access to early CAIS benefits—this is cattle producers and other ruminants. So there have been some changes already made in the last while since the program has been up and running.

The annual review is to look at how the entire program is working, yes.

Mr. James Bezan: One of the things I'm hearing out in the countryside is that farmers aren't happy about the Olympic average. Has there been any analysis done on what the cost to the government or the benefit to the producers would be if we moved from Olympic average versus a rolling average?

•(1155)

Mr. Danny Foster: Yes, that's been raised at the National Safety Nets Advisory Committee as well. As I understand it, when they undertook to launch CAIS, there was a study to determine whether the Olympic average or just using the previous straight three-year average was better. Overall it was found that the Olympic average was better for producers. So that's the basis of the reference margin that was selected for the program.

For the benefit of committee members, we had two options if we were going to be compliant with our WTO obligations, and that's what we called the Olympic average, where you looked at the previous five years, you dropped the high and low years, and you averaged the remaining three years to give the producer their reference margin. The other option was just going with the previous three years. Again, we did the analysis based on our NISA database, with over 100,000 producers in the database, and overall the producers would be better off using the Olympic average.

Now the National Safety Nets Advisory Committee has asked whether or not we could give producers the option of selecting each year the Olympic average or the previous three-year average, because one might be better than the other, depending on the year.

That will be part of the annual review process in terms of the effectiveness of the program. There are concerns with giving producers the options.

We've all talked about the complexity of the program and the cost. Well, one option can be advantageous if you're in a structural change scenario or you want to use accrual accounting; the other option may be better just based on a cash basis.

So there are a number of considerations with respect to what the National Safety Nets Advisory Committee has asked, but we're going to look at it. We know it's trade compliant and we'll look at that as part of the annual review process.

Mr. James Bezan: In your opening comments you mentioned that a couple of groups have said CAIS is better than previous programs. Who said that?

Mr. Danny Foster: We had two independent studies, one was by IBM through Nancy Brown-Anderson and Larry Martin from the University of Guelph. That was for the federal government. Then prior to the Province of Ontario signing on to the implementation agreement, we also contracted with Larry Martin from the University of Guelph and worked closely with the Ontario Ag Commodity Council in terms of doing a study. They came to the same conclusion.

Mr. James Bezan: Then why are so many producers saying previous programs are better than this one and that they're having trouble dealing with the administration of it? We're talking about how much it's costing from the bureaucrat's standpoint and the banks, but most of these guys are paying from \$500 to \$1,500 to their accountants on top of that.

Mr. Danny Foster: As Mary mentioned, the Canadian farm income program was a program where you participated depending on whether or not you thought you were going to trigger that. Under the CAIS program, producers are going to annually file their information. That's all their information—their inventory information, their receivables, payables.

We're working with the accounting community to get that streamlined. That should be a very streamlined process. If you get all that information on an annual basis through the tax reporting process, we can get it much quicker than waiting for the fall of the year following the program year. If we get this into the tax reporting process—and that's the direction we're moving into in terms of getting all the information through the tax reporting process—we should be able to calculate benefits and have the accounting community on side to calculate benefits very quickly in the spring-summer of the year following the program year.

So the issue is that producers are required to report on an annual basis. It's not a matter of picking whether or not you think you're going to trigger that and that's when you file the information. So we have to engage the accounting community on this.

The Chair: Thank you, Mr. Foster.

Now we move to Mr. Kilgour.

Hon. David Kilgour (Edmonton—Mill Woods—Beaumont, Lib.): Thank you, Mr. Chairman.

It's really hard to know where to start, and I share the concerns that have been voiced around the table.

Somebody in my office tried to go through the Internet and register, and they found it extremely difficult to do. Would it be fair to say that in fact people have to go through consultants or accountants to apply now, under this current version of CAIS?

Mr. Danny Foster: They don't have to. A large majority do, again because a large majority tend to use accountants or form preparers for their tax information.

• (1200)

Hon. David Kilgour: Yes, but this is separate from their tax.

Mr. Danny Foster: It is separate from tax, but then again we use a lot of the same information from the tax reporting process for the program.

Hon. David Kilgour: What you're saying, I think, is that people feel they have to go through accountants in order to get any of this money out of CAIS.

Mr. Danny Foster: They still have the choice.

Hon. David Kilgour: Producers are practical people. They have to go through an accountant to get the blasted money, right?

Mr. Danny Foster: Perhaps Michele has some numbers on producers who don't go through accountants. Again, I think we are looking at 70% to 75% of producers who use accountants, so 20% to 30% are not using accountants.

Hon. David Kilgour: Why don't you have some provision to compensate people for having to use accountants?

Mr. Danny Foster: That's their choice in terms of whether or not they—

Hon. David Kilgour: Practically speaking, they have to have accountants, but you won't pay them for having to hire accountants. It's their choice.

Mr. Danny Foster: Yes.

Hon. David Kilgour: It's called Hobson's choice, isn't it? If you need to do it and you have to put out the \$500 for an accountant to get the money, doesn't that suggest a design flaw in the program?

Mrs. Mary Komarynsky: I would perhaps like to add to what Danny has said in terms of the percentage of producers who are using accountants. Since the inception of the program, the CAIS administration—Michele's team in Winnipeg and also the provinces—has had many different sessions with producers and accountants to go over the information that's required, and even this week we're going out to New Brunswick to do one on ones.

Hon. David Kilgour: To accountants, right?

Mrs. Mary Komarynsky: To both accountants and one on one with producers.

Hon. David Kilgour: How many producers do you expect to get?

Mrs. Mary Komarynsky: Do you have it booked?

Ms. Michele Taylor: We don't have the full booking for New Brunswick, but—

Hon. David Kilgour: I'm sorry, it was a facetious question.

Ms. Michele Taylor: But I can give you the numbers of producers and accountants we've met with over the months.

Hon. David Kilgour: No, please don't. It was a rhetorical question.

Mrs. Mary Komarynsky: In addition, in terms of the availability of information to producers, producers can phone toll free to the CAIS administration, and if they are completing the forms on their own, there is a person there who can help them in terms of what information is required and how to calculate that information.

Hon. David Kilgour: Somebody told me that in Alberta there was a huge backlog and you couldn't get through on that line. Does that sound reasonable?

Ms. Michele Taylor: Where Canada delivers, we answer 98.7% of our calls.

Hon. David Kilgour: What about the point that we should stop the deposit immediately because it's known that the deposit system doesn't work properly and it's costing the government \$14 million? Why don't you just scrap the deposit?

Mrs. Mary Komarynsky: As I indicated, after the consultations, ministers in Prince Edward Island in September had the discussion and felt that to direct officials to look for alternative mechanisms.... The principle of active risk management is a key principle of the APF that provinces signed on to, so we extended the deadline for deposits to allow some work to be done on alternative mechanisms.

Hon. David Kilgour: Can we turn to the question about whether it's allowable under the NAFTA? You're suggesting that with cattle it may trigger a countervail, what we're doing with this?

Mr. Danny Foster: Not at all. We're not suggesting it. It's always a risk in terms of the farm lobby, R-CALF, or whoever down south. What we're suggesting is that the CAIS program is designed not to trigger countervail in the sense that it's whole farm; it's not specifically directed to one commodity.

Hon. David Kilgour: Do you have some legal opinions on it that suggest it's not an offence under NAFTA?

Mr. Danny Foster: Yes.

Hon. David Kilgour: Legal opinions from practising lawyers or...?

Mr. Danny Foster: From our trade lawyers.

Hon. David Kilgour: From DFAIT?

Mr. Danny Foster: I don't know who exactly.

Mrs. Mary Komarynsky: The Department of Justice.

The Chair: Thank you, Mr. Kilgour.

We'll move to Mr. Gaudet for five minutes.

[Translation]

Mr. Roger Gaudet (Montcalm, BQ): Thank you, Mr. Chairman.

Are farmers entitled to a payment for cull cows under CAIS?

[English]

Mr. Danny Foster: Under the CAIS program there is a special provision with respect to supply-managed commodities. Unlike for other commodities, producers must drop more than 30% relative to their historical margin before they can trigger out of CAIS. That's specifically with respect to the supply-managed commodities. If a supply-managed producer's income does drop marginally, let's say 10%, because of lower revenues from their cull animal sales, the CAIS program will still pay out. The producer is still eligible, but the payment is prorated by the value of their non-supply-managed sales over their total sales. So if a producer normally would trigger a \$5,000 CAIS payment, they could get, because of the supply-managed rules, maybe something in the neighbourhood of \$1,000 if their cull animal sales represent 20% of their total farm sales. So there's a proration that takes place under the CAIS program.

In essence, for supply-managed producers, they have to drop more than 30% before they trigger a full CAIS payment. Now if they only drop a bit and it's because of non-supply-managed sales, they're still eligible, but it's prorated to reflect the portion of their non-supply-managed sales over their total sales.

• (1205)

[Translation]

Mr. Roger Gaudet: Have you a CAIS form with you? I would like to get one because I have never seen that form. It must be quite complicated if you are forced to use an accountant. I am not a farmer, but I would like to get one of those forms.

[English]

Mrs. Mary Komarynsky: Yes, we can send you the forms through the committee.

[Translation]

Mr. Roger Gaudet: Thank you.

You said a little earlier that you still had \$1 to \$1.4 billion to give to producers for the 2003 program. Do I understand this correctly?

[English]

Mrs. Mary Komarynsky: Yes. Not "still". Our total forecast for the 2003 program year is between \$1.2 billion and \$1.5 billion that will be paid out. Currently for 2003 we have paid out \$280 million.

[Translation]

Mr. Roger Gaudet: From my understanding, Canadian farmers have suffered an income loss of \$1.2 billion and they have to wait that long to get their money! I find this difficult to accept. Year 2003 has ended eleven months ago. When year 2004 will end, farmers will still be waiting for the \$1.2 billion from the government. They have not received this money yet. Is there a lack of staff? Are the forms too complicated? Everybody must file their income tax report by April 30th. This is beginning to bother me.

[English]

Mr. Danny Foster: We have a challenge with respect to the current forms in terms of engaging the accounting community, as the honourable member talked about, to complete those forms. I'll give you an example.

For 2003 producers filed their tax information in the spring of 2004. We get that information from Revenue Canada. That forms a large part of the information that's required to calculate their CAIS benefits for 2003. But we also need additional information that is currently not on the tax form, and that covers their inventories, their payables, and their receivables. We need that information to have an accurate picture of their farm income for 2003 because most producers report on a cash basis.

So we need that additional information. It comes in through a supplementary form. Most producers or accountants are waiting until the fall, or the deadline, to file that supplementary form. So we have a delay in getting all the information from producers via their accountants and processing their applications. Now we are working towards, as I said, for 2005, integrating all that information into the tax process. That will force the accounting community to engage in terms of getting the inventory information. We'll have it in the spring and then we'll process CAIS benefits for 2005, as an example, in the spring of 2006.

In addition, we also have the interim payment mechanism where producers can come in during the program year, let's say in the middle of—right now—2004. They can come in and fill in a simple application and apply for benefits for 2004. They get a proportion of their estimated benefits. Currently, they can get 70% of their estimated CAIS payment for 2004.

Yes, in terms of the ongoing final application process, we have a challenge, but we're working towards getting that fixed through the tax reporting process. In the meantime we do have interim applications available.

• (1210)

The Chair: Thank you, Mr. Foster.

We move to Mr. Easter for five minutes.

Hon. Wayne Easter (Malpeque, Lib.): Thanks, Mr. Chair, and thanks, folks, for coming.

I suppose this is really not your problem; it's a policy problem. But isn't part of the problem with CAIS that we're trying to design a program to be all things for all people? It really wasn't designed, in my view anyway, to deal with a disaster, and we're trying to have it cover a disaster at the moment. That's one question.

In terms of the calls I get, there's no question that there's a huge concern on timeframe in terms of when a farmer files, the interchange, and when they get their results back. It even differs between commodities. My assessment would be that it works not too badly for cash crops, but it isn't working for the livestock industry. Part of that problem is in dealing in real time.

I'd like you to explain this to me: the difference between the livestock industry and the cash crop industry.

I'll give you an example, Mr. Chair. I have a producer who lost \$360,000, according to his bank papers. According to CAIS, because in the CAIS program we don't use real current day asset values for livestock, it doesn't show a loss because we're using an arbitrary figure. How do you come to that figure for livestock? Why can we not move to a real, accurate figure on a daily basis?

My third question relates to turnaround times. How do we compare—there are some provinces doing it on their own and the feds are doing it for six provinces—administratively, federally, versus those provinces that are doing it on their own? Can you give us that information as well, please?

Mr. Danny Foster: Your first couple of points are actually all intertwined, especially in terms of the livestock and the issue of CAIS being all things to all people. What we've seen with the BSE crisis is that CAIS will not compensate producers for what we call equity declines, where the animal has not been sold. I'll give you an example.

If a producer had a thousand head at the beginning of the year and has a thousand head at the end of the year, from an asset position, nothing has changed, but the value of that asset has changed. Let's say the value of those animals has declined by \$200 a head. The CAIS program will not compensate the producer for that \$200 decline until they actually sell the animals the following year. If it did, then assuming the producer sold those animals at a higher price the following year, we will have compensated the producer for

a loss that was actually not realized. I know there are people who will take exception in terms of the current crisis with the BSE, but that's one of the key principles and challenges with the current inventory evaluation methodology.

So the producer still has the same number of head, there has been a decline in the value of those animals, and there has been a tightening of credit. But if the CAIS program were to compensate for that decline in the value of those animals, we could end up compensating for a loss that wouldn't be realized if the producer ended up selling those animals for a higher price the following spring. The CAIS program will compensate the producer the following spring if they do sell those animals at a lower price.

The other thing is if we did start compensating for price declines on animals that are being held or inventory being held, we could influence producers' marketing decisions. If you know prices are declining, normally what you will do when a price is declining is sell now rather than take further losses. But if you say, no, the CAIS program will cover that, then you might speculate and hold onto it, because you know if it declines further, the CAIS program will compensate you.

So there are a couple of key issues here. This is not an easy one. We've had this discussion at the safety net advisory committee, with the CFIA, and they all recognize the challenge with the inventory evaluation methodology. In fact, we are undertaking a study right now on our current inventory methodology, in consultation with industry and provinces, to see if there's anything we're missing in terms of making improvements to the methodology. We expect that report to be done by mid-December. So that's the challenge with the current methodology.

In terms of prices, we use the prices at the year-end of the producer. If a corporation has a January 31 year-end, that's the price we use. It's based on industry prices—CanFax, Stats Canada, whatever the recognized sources of those prices are—and they're market values that we use.

• (1215)

The Chair: Thank you.

Your time has expired, Mr. Easter.

Hon. Wayne Easter: Yes, but I didn't get my other question in.

The Chair: You'll have to wait.

Mr. Miller for five minutes.

Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC): Thank you, Mr. Chairman.

Just listening to some of the comments from around the table, I think most of us are on the same wavelength on something Mr. Easter just mentioned, that being the deposits. If somebody is in trouble and needs something in a disaster, and if they had, say, \$15,000 or whatever it is to put in there, they wouldn't need the big benefits. I think that's something that needs to be looked at.

This program appears to be designed in such a way as to benefit the banks. Why is the government, so to speak, not being the banker in this in order to reduce service charges and this kind of thing? Further, do you have any idea how much the banks have reaped in service charges on this? Do you have an idea of those figures, or could you get them?

Mr. Danny Foster: To be honest with you, I have no idea. We can look into it to see what those service charges would be. For the most part, the service charges are reflected in the interest they would charge on any borrowings the producer would have to make in order to make the deposit.

Mr. Larry Miller: I have one other question, and it goes back to when Ms. Komarynsky was talking about how many applications are done in a day. Well, 2,500 a week sounds like a fair bit until you realize how many producers there are across this country.

When you go back to eight a day for processing—and I missed what the five a day were—and then ten for verification, it's really pretty low. I think we need to increase your amount there. Maybe the program was flawed in such a way that it proves why farmers are having to hire accountants to do it if it's taking staff that long to do them.

This may help speed things up, but if a person has a chartered accountant prepare his application, there should be a process in place whereby being that it's prepared by a professional, it should speed it through. Government shouldn't have to question it in the same way. That's not to say it shouldn't be verified and gone over at some point, but for the sake of expediency in getting that money out to farmers....

Are there any comments on whether that could work?

Mrs. Mary Komarynsky: As I indicated earlier, we're always looking at ways to improve the program. However, as public servants and as managers of programs, we have to manage public money. Part of the 60-day service standard we have established is to verify, once all the processing is done—we've checked the information, had contact with the producer, as Michele indicated. One of the key steps in processing to get a cheque out is to ensure that the work we have done is compliant with the Financial Administration Act of Canada and that the government is actually responsible and doing a responsive job in terms of ensuring that we are not making overpayments and that we have accurately calculated how much—

Mr. Larry Miller: I understand all that.

Maybe what we should do is set it up in a similar way to the sponsorship thing. That would work and get it out to them faster.

Hon. Wayne Easter: He must have got his faster than mine.

Mr. Larry Miller: If a producer doesn't qualify under this program, I think it's pertinent not only that they get that money back but that they get it back promptly.

You mentioned, if I understood you earlier, that you're looking into that. This needs to happen.

• (1220)

Mrs. Mary Komarynsky: This is the deposit you're referring to.

As Danny indicated, currently producers have until March 2005 to make their deposit. I think Danny said they may actually be getting a

payment under CAIS 2003 and will be told that they have to make a deposit after the fact.

The amendment that I think you're also referring to, and other members have talked about...we are proceeding with the amendment. We require a specific number of provinces to agree to that amendment before it becomes effective. That is the condition under the APF for business risk management. We need to have...is it six or seven?

An hon. member: Seven.

Mrs. Mary Komarynsky: Thank you. Seven provinces representing 50% of production must agree for an amendment to come into effect.

The Chair: Your time has expired, Mr. Miller.

Mr. Drouin, five minutes.

[*Translation*]

Hon. Claude Drouin (Beauce, Lib.): Thank you very much, Mr. Chairman.

I wish to thank our witnesses for coming here and allowing us to study the program more closely.

Mr. Foster, in answering a question from Mr. Anderson, you said—if I understood correctly—that you will be considering the possibility of seeing with the Americans if it might have an impact on the program. Did I understand correctly?

Knowing our American friends and their tendency toward protectionism, should we not have studied that immediately to avoid any dispute or problems?

After what happened in the case of softwood lumber or now with hogs, I think we should have studied this question right away, to get some reasonable assurance that we would not have to face trade disputes that would penalize our farmers once again.

[*English*]

Mr. Danny Foster: I agree.

Unfortunately, we don't have our trade people here to find out if they are or are not working on this scenario. It's something we will follow up and report back to the committee on.

[Translation]

Hon. Claude Drouin: You mentioned a little earlier, speaking about the mad cow crisis, that you do not accept the fact that cull cows represent about 25 per cent of total farm production. This is what our producers are telling us. Instead it is valued at 16 per cent. Correct me if my percentages are wrong. The problem is that you do not accept that the proportion is 25 per cent. You do not take into account the fact that cull cows are the main source of profit for the producer. This is what brings him the most money. If it represents 25 per cent of his annual production and up to 40 or 50 per cent of his net income, he is doubly penalized. I think that it should be taken into account because this is what is presently hurting our farmers. I can understand that CAIS has not been designed to deal with the mad cow crisis, and this is why we have \$2.1 billion extra to try to deal with it. When you see the results, the fact that the consumer still pays the same price while the producer gets almost nothing, we may wonder if it was the ideal solution. But this is another debate. We should have perhaps set a minimum price and taken other measures to help the industry. I am sorry for having digressed a little.

I wish you to tell me if it was taken into account for cull cows.

[English]

Mr. Danny Foster: As far as I'm aware, in terms of the 16% versus 25% that was used for the previous program, that was determined following consultations with the dairy industry. I guess all I can add is that our minister at the last standing committee meeting did indicate that he is in discussion on a number of fronts with respect to the impact of the BSE, and that would include what can be done to help dairy producers. Other than that, I can't add anything at this point.

The Chair: If I might just jump in here, wasn't that number put in there basically to get a calculation of cows that would qualify for a program? It really didn't relate to the relevance of cows being culled from a herd. It was based on numbers for a program to be applied.

• (1225)

Mr. Danny Foster: That's right.

The Chair: You're still on.

[Translation]

Hon. Claude Drouin: It is OK, Mr. Chairman.

[English]

The Chair: Claude, you're finished?

Hon. Claude Drouin: Yes.

The Chair: Mr. Ritz.

Mr. Gerry Ritz: Thank you very much, Mr. Chairman.

The Chair: So that you'll understand we're being fair, they shared a question in the first part, so you're back on, Mr. Ritz.

Mr. Gerry Ritz: Thank you, Mr. Chairman.

There are lots of good things floating around here. There are a couple of things I want to clarify.

Danny, if I have 1,000 cattle and I keep 1,000 cattle until the end of the year and I don't trigger anything, the way I would trigger CAIS is to distort the market by selling some of them very cheaply or hauling them out to the back forty and burying them so my

numbers aren't the same. Your program would distort the market from that point of view. Since you're not figuring the loss of value, I have to create my own loss of value by dumping them on the market for nothing so I can trigger CAIS. That does distort the market, and it is a major concern to a lot of producers in that they're forced to take less to qualify for disaster assistance. They shouldn't have to do that. So that's a concern.

The other point you mentioned is that the vast majority of producers out there use cash accounting, but the program forces them to change to accrual accounting. The only reason I can understand that, and I face that, is because my off-farm income, of course, is higher—anybody's is—than my farm income now. The accrual accounting makes you include unsold inventory value. That's the basis of accrual accounting. By the time I take all of that in, I no longer have a loss because I'm overburdened with all of this inventory that's worth nothing but still has a value. That keeps me off the program.

Those are two things that need to be addressed when you have your little review.

To my colleague Mr. Bezan's question, Mary mentioned that the review is in June, although it is the first year of the program. Well, technically it's not. The program was to come in for 2002-03. I mean, CFIP was done, basically, at the end of 2001, and April 2002 was supposed to be the start of CAIS. Correct me if I'm wrong. That will be two and a half years into a five-year program before we see the first review.

I look at the numbers that have been triggered and the cost of administration that's being tallied up here. I have farmers going broke who can't figure out why they can't collect any money. It's a cumulative program for five years. We supposedly allocated \$4.7 billion last year, which nobody got, and the whole APF program for five years is \$5.2 billion. So how do you square all that when we're two and a half years into a five-year program before we get the first annual review that points out all of the program's flaws and warts?

Mr. Danny Foster: On the inventory issue, again, very simply, in terms of producers reporting on a cash basis, what we're doing, as an example, is if a producer produced 100 tonnes of wheat and normally sold that production in the same year—

Mr. Gerry Ritz: It very seldom happens.

Mr. Danny Foster: Let's say the next year then, so they sell it the same year. That's establishing their margin for the year. Let's say that next year they think prices will go up and they decide to hold on to that 100 tonnes and sell it the next year. By making that decision to hold on to those 100 tonnes and sell it the next year, they would trigger a CAIS payment, even though they may not incur a loss when they actually sell the commodity, because they had the 100 tonnes of production in 2004. Instead of doing what they normally do and selling it that year, they sell it the following year. Just by that decision not to sell it, it would trigger a payment.

Mr. Gerry Ritz: But with accrual accounting, the value is there whether I've sold it or not.

Mr. Danny Foster: But that's what we're taking into the program. We're saying the value of that 100 tonnes should be counted in the program.

Mr. Gerry Ritz: But the value is arbitrary. I mean, you won't let me use the reality value, where everything slides down to the bottom. You won't let me use that value. You're using an arbitrary value under an accrual system that is cruel, because it keeps me off any program that's supposed to help.

Mr. Danny Foster: We're trying to use the reality value as much as possible.

Mr. Gerry Ritz: Try a little harder.

Mr. Danny Foster: We're trying to use the market prices.

With respect to the second question—

Mrs. Mary Komarynsky: You're correct. The program became operational.... It was dependent on the signature of the final implementation agreement, when Ontario signed in December, that we could actually have CAIS 2003 become operational. I think committee members know that prior to that governments made some risk management payments. There was \$1.2 billion made in payments in two \$600 million installments. As well, the TISP, the transitional industry support program, that was announced last March was seen as a transitional program to assist producers impacted by BSE. As well, there was a general payment component. All three, the two \$600 million payments and the TISP, were seen as a transit to allow us to get ready for the—

•(1230)

Mr. Gerry Ritz: Sure, we all remember the programs. Thank you for that synopsis.

Mrs. Mary Komarynsky: In terms of the annual review, to be frank, on Tuesday there was a comment that the annual review has been in the making for quite some time. As our minister indicated, he has made the announcement and the annual review will start in December.

The Chair: All right, Mr. Ritz....

Do you want to finish?

Mr. Danny Foster: Yes. Another point is that our first year really is the 2003 program year. We're just getting the information now through the applications; we're just getting the information so that we can do a proper evaluation of the program.

The other point I would make is that the program doesn't end with the APF. The agreement is an ongoing agreement—

Mr. Gerry Ritz: It does.

Mr. Danny Foster: It is an ongoing program, so it's not as if five years is up and the program is terminated. It's only terminated upon the agreement of the parties.

The Chair: Mr. Angus for five minutes.

Mr. Charlie Angus: Thank you, Mr. Chair.

I'd like to go back to the issue of the deposit, because we've all agreed that the deposit is a problem. It's been recommended that it should be removed, and we'll have a decision sometime at the end of June. Meanwhile our producers are going to have to borrow money. Especially for the ones in beef who are now suffering, this is going to be their worst winter yet. I just don't understand why, given the magnitude of the crisis we're dealing with, they are going to have to

borrow money for another year when we've already admitted that we need to find alternative methods.

Is there any way this decision can be made before March 31?

Mrs. Mary Komarynsky: Ministers recognized in September that there was an urgent need to come up with other alternative mechanisms for the deposit option. They agreed to extend the deposit until March 31, 2005, and they asked us to come back with preliminary findings in December. At this time, to be very frank in this room, it will be the decision of ministers and also the annual review of the committees that are being set up as to whether decisions will be made prior to March 31 or whether the agreement to set up an annual review process that will be comprised of both producers and government as well as other experts will decide that further study is required. In many ways it's quite difficult to answer precisely when a decision will be made.

Mr. Charlie Angus: I don't want to state the obvious here, but we are in the midst of the biggest agricultural disaster since the dust bowl. In fact, it is much bigger than the dust bowl because the dust bowl affected one region of Canada whereas farms in eastern Canada, Quebec, and Ontario survived the dust bowl.

What I'm hearing today is that we have general agreement from everybody that CAIS does not address the issue of cull cows and does not address the devastating loss of inventory, which is at the very heart of the BSE crisis. Could we get a statement of recognition that CAIS might work someplace, but it does not do anything that's needed to be done to address the heart of the BSE crisis?

Mrs. Mary Komarynsky: I'll come back to the question I answered on Tuesday. CAIS is meant to deal with income drops from a reference margin, both small and large. In terms of both the federal and the provincial governments and responsiveness to the BSE crisis, governments have, both in the 2003-2004 fiscal year as well as in the announcement that was made on September 10, recognized that additional measures were required to assist producers during the BSE crisis. The cull animal program, the TISP program, and the BSE recovery program all had different objectives but paid out money to assist producers because of BSE.

The announcement, the discussion, the questions the minister answered on Tuesday were to address how we reposition the industry because of the continuing crisis.

•(1235)

Mr. Charlie Angus: CAIS will not get our farmers, who are holding on to their inventory because of the devastating prices, through this winter. That's a statement.

The Chair: Anything further? Is that it, Mr. Angus? Okay.

Then we move to Mr. Bezan. We're starting our third round now, so that we get a sense of where we're going.

Mr. James Bezan: I thought from your opening comments—you alluded to the independent study that had been done—that CAIS was the better program for disaster assistance, and yet we're finding out it's not. I guess I take exception to the fact that we're saying we have a crisis here and we have a program that isn't delivering money fast enough. I'm just wondering how we can expedite this. We've had some good ideas thrown out on the table here. I'm hoping you guys are going to go back.

The other thing is we start talking about inventory values. I'd like to get the mechanism on how you arbitrarily decide inventory values. The one thing that isn't taken into consideration is these guys aren't necessarily holding their inventories, because they're hoping the market is going to go up. Some of them are in a situation where they can't market. They're in areas that don't have slaughter capacity. My province is a good example. We can't get our mature animals into a facility because there aren't enough facilities there. They're booked four, five, six months in advance.

We need to be compassionate enough and work that into the formulas. Local markets may not have any buyers sitting at the auction ring. There are a whole bunch of things we have to take into consideration here, not just automatically write it off—while they're holding their inventory, they're going to get more money for them next year; hopefully, we'll trigger that loss. The program, either way, is influencing marketing decisions for those who have the marketing ability. Many of them have no marketing opportunity.

The other thing is a comparison of CAIS versus previous programs—mistakes made by producers. This is one of the things that's forcing more and more farmers to use the professionals. My understanding is that in the old system, if there was a mistake made in their application, and if it was to the benefit of the producer, the NISA administration would make the correction on their behalf. In this situation, if a mistake is made for the producer, there's no correction made. If it's made to the benefit of the government, then the correction is made on their behalf. That's something that has been brought to our attention and it's something I want to get a little more information on.

Mrs. Mary Komarynsky: In terms of the independent studies—and perhaps if I need help, Danny can add—they were done to determine whether the CAIS program design was better than the previous one. At that time, BSE was not there. It wasn't done to respond to the question, will it handle every single disaster? It was a comparison as to whether or not the CAIS program design that was proposed was better than what we had before.

I guess you want some more information on inventory values.

As to your last question on whether we err on the side of the producer or the government, I'm going to have to turn to the previous administrator and the current administrator to answer the historical question first.

Danny.

Mr. Danny Foster: To be honest with you, I'm not aware that when we processed NISA we would process to “the benefit of the producer”. What we were trying to achieve all the time was the most accurate payment for the producer. If we found we had overpaid the producer, we would go ahead and seek collection. If we had underpaid the producer and discovered through the audit that we had done so, we would issue that additional payment.

Maybe Michele can add to this, but I just want to make a couple of other points before we get back to it.

On the pricing, we do use industry market values at December 31 or whatever date that is. If prices are declining and producers are building up their inventories, the prices at which we're going to value that year-end inventory are going to reflect where the actual market

is. If the prices are declining, we're adding animals back into the producer's cash income at very low values if they're properly reflecting the market. So we're using actual market prices. These aren't something we make up in terms of coming up with the inventory values.

The other point I would make is that we did announce—and I think Mary mentioned this in her opening remarks—on September 10 a cash advance under CAIS, specifically for cow-calf producers, at \$100 a head. The uptake has been very good on that.

•(1240)

The Chair: We know all that.

Mr. Danny Foster: Thirdly, based on our first 16,000 applications processed, we do have 70% of cattle producers triggering payments under the program.

The Chair: Thank you, Mr. Foster.

We're now moving to Mr. Easter for five minutes.

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

I want to come back to Mr. Angus' question. He said the CAIS hasn't addressed the heart of the BSE crisis. I agree with that statement, but it wasn't designed to. It was designed to deal with normal fluctuations in the market, the booms and busts. I really believe that.

I do think we have to look at disaster programming, because the fact of the matter is that although it's not talked about much on opposition benches, we have put out—and Mary mentioned them—over \$2 billion in a number of ad hoc programs to try to deal with the crisis in the industry. That doesn't lessen the fact that I know, and we all know, there are producers out there in desperate financial shape, and we have to deal with that fact. That leads me to the advance on CAIS, which means, I guess, manipulating the CAIS program somewhat to try to pull money ahead to producers in the livestock industry and get that money into their pockets immediately.

I agree with that approach; however, what happens if next year they don't move those cattle? That's what I'm concerned about. It's what happens then.

So explain to me how the advance on CAIS is going to work. I know the intent. The intent is to get money into producers' pockets out of a program that wasn't designed to deal with this kind of a crisis. I just don't know why we don't admit it up front and put in place a damn disaster program. I remember calling for that in the 1970s, and we still don't have one. In any event, I need an explanation on that.

I want to come back to my question that the chair wouldn't allow you to answer previously, which was the turnaround times federally and in the provinces. I'm thinking specifically of P.E.I. Where are we? Are we doing well? What's the comparison between the feds and the provinces that are doing it? Are we doing a reasonable job federally, are we behind the provinces, or what?

If I could have that first, then go to the CAIS advance.

Ms. Michele Taylor: For provinces where Canada delivers, our percentage of applications processed within the standard, which is 60 days, is 59%. By comparison, the Province of Alberta has processed 21% of its applications within standard, Ontario has processed 48% within the standard, and P.E.I. has processed 22% within the standard. The Province of Quebec has not begun processing its applications yet.

Hon. Wayne Easter: Okay.

I raise that point, Mr. Chair, because even in a province like P.E.I, which is at 22%, where federally we're at....

Did you say 51% or 59%?

Ms. Michele Taylor: I said 59%.

Hon. Wayne Easter: Okay, so 59%.

We still get the blame. It's our fault, even though we're not doing the processing.

In Alberta, where they're doing the processing, Gerry will get up here and give us hell for not getting them processed fast enough. The fact is that the feds are producing them at 59% and Alberta at 21%. But we're getting the blame, and that kind of bothers me a little bit.

At any rate, the cash advance....

•(1245)

Mr. Danny Foster: The \$100 cash advance is an advance under CAIS 2004. If the producer does not trigger a final payment under CAIS 2004, that advance will be carried forward as a debt against future CAIS payments. We're not going to go out and aggressively collect that \$100 back. We're going to wait for the producer to trigger under a future CAIS payment. If a producer didn't trigger under CAIS for 2004, we will collect that \$100 against future CAIS payments, but starting in January 2006, the producer would get a letter saying, you're now required to repay the \$100 advance.

One other point on the disaster program. Again, in terms of the analysis we've done, the majority of cattle producers who are triggering under CAIS are in the disaster tier of the program. So they do have a margin below 70% of their historical average. Those who are triggering are doing so from the disaster tier.

Hon. David Kilgour: You said the "majority"; do you mean 50% plus one?

Mr. Danny Foster: No, it's probably 60% to 70%.

The Chair: Thank you very much.

We'll move to Madam Poirier-Rivard.

[Translation]

Ms. Denise Poirier-Rivard: Thank you, Mr. Chairman.

Very few producers are satisfied with the program.

If I understood correctly, you have not started yet to process applications from Quebec. Is that right?

[English]

Ms. Michele Taylor: The federal government does not deliver the CAIS program in the province of Quebec. It's a provincial agency. As of October 31, Quebec had not begun processing.

[Translation]

Ms. Denise Poirier-Rivard: As of when?

[English]

Ms. Michele Taylor: As of October 31, Quebec had not commenced their processing of the 2003 CAIS applications.

[Translation]

Ms. Denise Poirier-Rivard: Did they get the money? If yes, what amount did they get?

[English]

Mrs. Mary Komarynsky: I think what you're asking is whether the federal government has provided Quebec with the 60%, our share. On the 60-40 cost-sharing, the province delivers the program. As they pay out, the federal government is invoiced for our percentage of CAIS payments. So right across the country, we pay 60% of CAIS. You issue the invoice, we provide the money.

In terms of Quebec, the reason they haven't begun processing is that they have different deadlines. The federal government, where we deliver, has certain deadlines in the first year of the program. Provincial administrations in this first year have the flexibility to establish their own deadlines for when the applications are due. So Quebec's deadlines are different from ours. That's one of the reasons why they have not begun processing forms.

[Translation]

Ms. Denise Poirier-Rivard: Are the eligibility criteria the same in each province?

[English]

Mrs. Mary Komarynsky: Yes.

[Translation]

Ms. Denise Poirier-Rivard: In that case, how do you explain that in the previous program, woodlot owners in Quebec were covered by the previous farm income program but they are not anymore? How do you justify that woodlots are not included any longer? These operations were part of the day-to-day activity of several producers and were bringing them an appreciable source of income.

•(1250)

[English]

Mr. Danny Foster: I can't explain it, because I don't know the specifics of the circumstance, but I do know that wood is eligible as long as it can be reported as farm income for tax purposes. That's basically the raising and nurturing of trees, if you will. That is an eligible commodity for CAIS purposes.

In terms of the old program versus what we have now, and if there's been any change, I can't answer that question. We can get back to you in terms of what the situation is.

[Translation]

Ms. Denise Poirier-Rivard: Yes, it would be greatly appreciated.

You are telling me that it is included. Woodlots are covered by CAIS. This is what I understand.

[English]

Mr. Danny Foster: I think the sense is that it's raised; it's not just someone going out into the bush and cutting a bunch of wood and selling it. That's not eligible. The trees have to be raised by the participant. Then it can be reported as farm income under the Income Tax Act. That is eligible.

The Chair: We move to Mrs. Ur, five minutes.

Mrs. Rose-Marie Ur: At present in Ontario—as I'm sure you're aware, it's going to be moving to AgriCorp—the applications go to the provincial government. Once they review it, they send their comments on to Winnipeg. At one point, Winnipeg didn't know what was going on here. When we'd call, they'd send us back and forth and all around.

So they go to Winnipeg, and then Winnipeg looks at it. They send their comments on to the financial institution that the producer is dealing with. Those banks have a one-month turnaround time to issue payment to the producer, and yet every day is important in a producer's life.

Is there any way of looking at that one-month turnaround time, Mr. Foster, or whoever is in charge or knows about that?

Mr. Danny Foster: I'll let Michele answer.

Ms. Michele Taylor: The CAIS administration is up to date with the issuance of the CAIS withdrawal authorization notice. This is the information exchanged between the federal government and the provinces. Where the provinces deliver is related to the fact that the decision was made by the provinces and the federal government that the federal administration would be responsible for the relationship with financial institutions. This was done for efficiency reasons. There were some specific situations affecting a group of Ontario producers, which we have dealt with now. We believe we have fixed the anomaly.

Mrs. Rose-Marie Ur: The minister is going to have the review starting in December, I believe. Do you know the makeup of that review tribunal?

Mrs. Mary Komarynsky: Bear with me for just two seconds.

Mrs. Rose-Marie Ur: While Mary is looking for that, does anyone at the table know what the status is of wedge funding in Ontario?

Mrs. Mary Komarynsky: Yes. We received a letter from the Ontario government outlining what they would like to have considered in their wedge funding. I understand there's been quite a bit of consultation with Ontario producers. It's now just an exchange of letters in terms of at least the federal government indicating that their wedge funding is eligible with regard to the criteria required in the implementation agreement.

In terms of the annual review, there is going to be a steering committee. It will be comprised of 32 members. The members will be appointed by ministers for a term of three years. The breakout of the steering committee will be, as the minister indicated on Tuesday, a partnership or a mixture of industry and government.

In terms of appointments, out of 32 representatives there will be three federal representatives and six non-government representatives appointed by the federal minister. Provinces will nominate ten government officials in the ten provinces, so one per province, and

ten non-government officials, industry and others. The territories are each allowed to have one representative from government. That would make up the 32.

Mrs. Rose-Marie Ur: Thank you.

Ontario doesn't participate in advance payments, or does it?

• (1255)

Mrs. Mary Komarynsky: No, the cash advance program, the spring credit, and the fall cash advance are all federal programs.

Mrs. Rose-Marie Ur: Okay, but they participate...or that's a program that takes place—

Mrs. Mary Komarynsky: Oh, I'm sorry, you meant the CAIS special advance. At this point, when there was agreement on the special advance, all provinces were to get back to us. We have yet to hear from Ontario on whether they will participate in the \$100 per head.

Mrs. Rose-Marie Ur: Thank you.

The Chair: We'll move to Mr. Miller for about three minutes.

Mr. Larry Miller: Thank you, Mr. Chairman.

Madam Poirier-Rivard asked a question about wood. If wood is eligible, it just goes to exemplify or verify how ridiculously this program was designed. It's designed as an insurance program, not as a disaster program. I heard Mr. Easter and a few others, and I don't know what it seems to take for either the minister or the staff to really understand that.

The reason I say this on wood is that wood or logs are not harvested annually, like a crop of calves would, or a crop of wheat or whatever. In most cases it's 10 or 15 years. In the case of hard maple, which I know Quebec has a lot of, it's 20 to 25 years. So if you happen to get hit in the middle of this with a year that you sold some, you'd have a distorted income that year; if you didn't, you could call it abnormally low or whatever. It shouldn't even be part of this. You have to get down to the disaster thing.

Going back, you mentioned the 32 members. I must have missed something, because you said you had three federal representatives, meaning elected MPs?

Mrs. Mary Komarynsky: No, federal government representatives. The steering committee will be made up of 32 people. Our minister will have the opportunity to appoint three government employees and six non-government. The provinces will nominate ten, each one, and then non-government as well. The territories each have one choice.

Mr. Larry Miller: I see. And non-government from the territories?

Mrs. Mary Komarynsky: My understanding is that it's three government.

Mr. Larry Miller: Three government. Again, the people who know the most about the industry get shortchanged.

Mrs. Mary Komarynsky: No, as I think the minister indicated on Tuesday, it's 50-50. If you take the ten provinces, you have ten government, ten industry or non-government people. That's 50-50. You have three federal appointees, three from the territories, and then the six non-government. That would be an equal representation, government and non-government.

Mr. Larry Miller: You're right, my mistake.

That's all I have, Mr. Chairman.

The Chair: We've almost come to the conclusion. I think there was some indication by Mr. Ritz at the outset of the meeting that he would like to see circulated the names of the advisers on the safety net committee. Perhaps you could have that circulated, through the clerk, to all the committee members.

I believe that brings us to the end of this meeting, although not to the end of this issue. Obviously, the deeper we get into this, the more we realize that we do need a study of this issue. Finding a resolution is not going to be easy, but obviously it has a lot of growing pains before it reaches maturity.

We're off next week. Mr. Ritz will chair the meetings the following week, in my absence, and I will be back the following week. And that's all I have to say today.

Thank you again for appearing today.

We are adjourned—

Hon. David Kilgour: Wait, he has a motion.

The Chair: You're putting that motion forward?

Mr. Gerry Ritz: Yes.

The Chair: I'm sorry. I'll withdraw the move to adjourn.

Mr. Gerry Ritz: I am just verbally going to—

• (1300)

The Chair: Let's have the motion then.

Mr. Gerry Ritz: I understand it takes 48 hours' notice, but I have asked my colleagues around the table to consider this in the spirit of what we've been hearing over the last days and weeks in our presentations.

The concern from a lot of producers out there is a complete lack of processing capacity for cull animals. To that end there have been a number of groups across the country that have tried to fill that void, and there has been very rigorous control, if you will, by CFIA. It has not been helpful in moving that ahead. One that comes to mind, of course, is Gencor, with a year and a half trying to get up to speed. Another one is the Blue Mountain group at Salmon Arm, which has been stopped and stymied at various points with a lot of different direction by CFIA.

I know we're not talking about votes 30 or 35, which pertain to CFIA, but with unanimous consent the committee can move mountains. I seek the understanding of the committee and ask for unanimous consent to table a motion—and I'm certain we could change it—that would run along this type of situation:

That the Standing Committee on Agriculture and Agri-Food recommend withholding a dollar figure from CFIA's 2004-2005 votes 30 and 35 until their ad hoc committee's study—

—which they talked about the other day here—

—on withholding licensing to groups such as Gencor and Blue Mountain Packers can be tabled and justified to this committee.

I put that forward for discussion.

I would move that, seconded by my colleague, Mr. Kilgour, from Edmonton—Mill Woods—Beaumont. We have chatted with all of the other groups around the table. There seems to be consensus for that. I would be open to amendment or discussion on that.

The Chair: Let me first ask, do I have unanimous consent by the committee members?

Hon. Wayne Easter: No.

The Chair: I don't have unanimous consent.

Hon. David Kilgour: No, hang on. For one dollar—

Mrs. Rose-Marie Ur: No, he said *x* dollars.

Mr. Gerry Ritz: David, I left that open. I'm open to direction from the committee. I just notice that producers are finding there is a tremendous void out there on these cull animals and they're looking to the government to show some movement on this. CFIA has not been helpful.

Hon. Wayne Easter: Mr. Chair, I don't think the withholding of money is going to do any good in that regard.

The minister was here last week. There has been an effort made with CFIA to move more expediently in this regard. I'm well aware of the Blue Mountain problem because I've been talking to some of the people who are involved in that, and I do think we have made progress. CFIA is sending out a senior person next week to try to deal with those problems on the ground.

As with many of these issues, certainly a plant, in terms of not getting up and running, is going to tell its producers that the problem is CFIA. Sometimes there are problems on the part of the plant as well in that it hasn't met the requirements. I don't think we can risk running into problems with the U.S. in terms of our border issue if we don't meet all the regulations.

Based on what the minister said last week on current discussions with the CFIA, they are moving more quickly now than they were two weeks ago to try to address these issues.

I agree with the principle Gerry is talking about. CFIA has to get on the ground, and never mind sending blueprints back and forth between Ottawa and wherever. They have to get on the ground and get the job done and get these plants up and running. But this motion will not accomplish that.

The Chair: We have heard an opposing view. We don't have unanimous consent.

Mr. Ritz, if you want to pursue, then you can serve 48 hours' notice and it can be debated at a future meeting.

Mr. Gerry Ritz: Thank you, Mr. Chair.

The Chair: That is about all I can do today.

Thank you very much for your cooperation.

Do you have a problem?

[*Translation*]

Mr. Roger Gaudet: When we come back from our holidays as you say—I would rather call that a period of rest—could we get lunch? Several of us have to leave at 1 o'clock so that they can go to Question Period.

[*English*]

The Chair: Are you making a suggestion that we should have lunch at the next meeting and the meetings thereafter?

Is there a consensus? We still have quorum.

Some hon. members: Agreed.

The Chair: We will have lunch next week—and beyond that?

Some hon. members: Agreed.

The Chair: You will have your lunch.

The meeting is adjourned.

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